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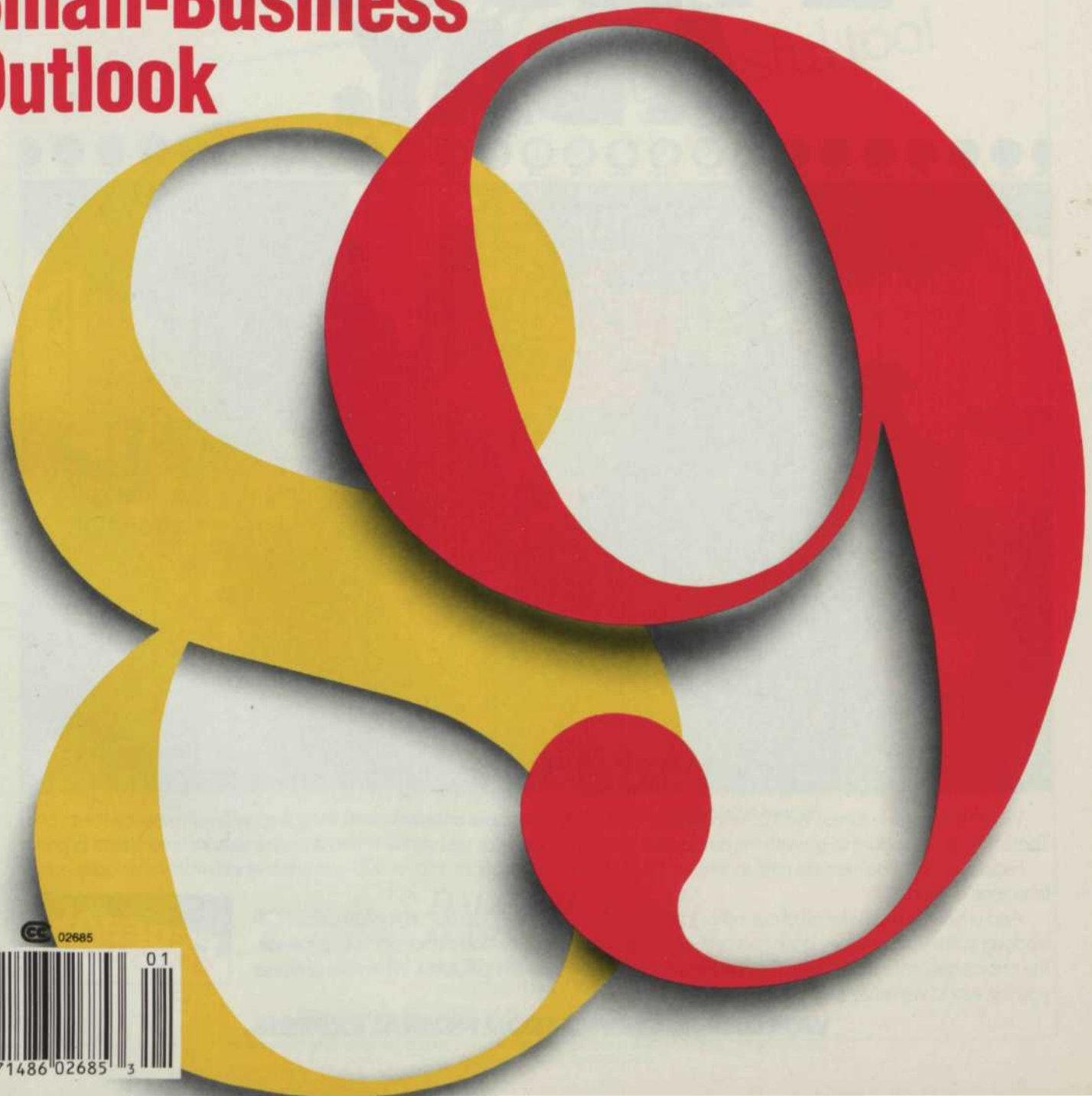
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Give New Hires The Right Start

When Family Firms Reach 'Third Stage'

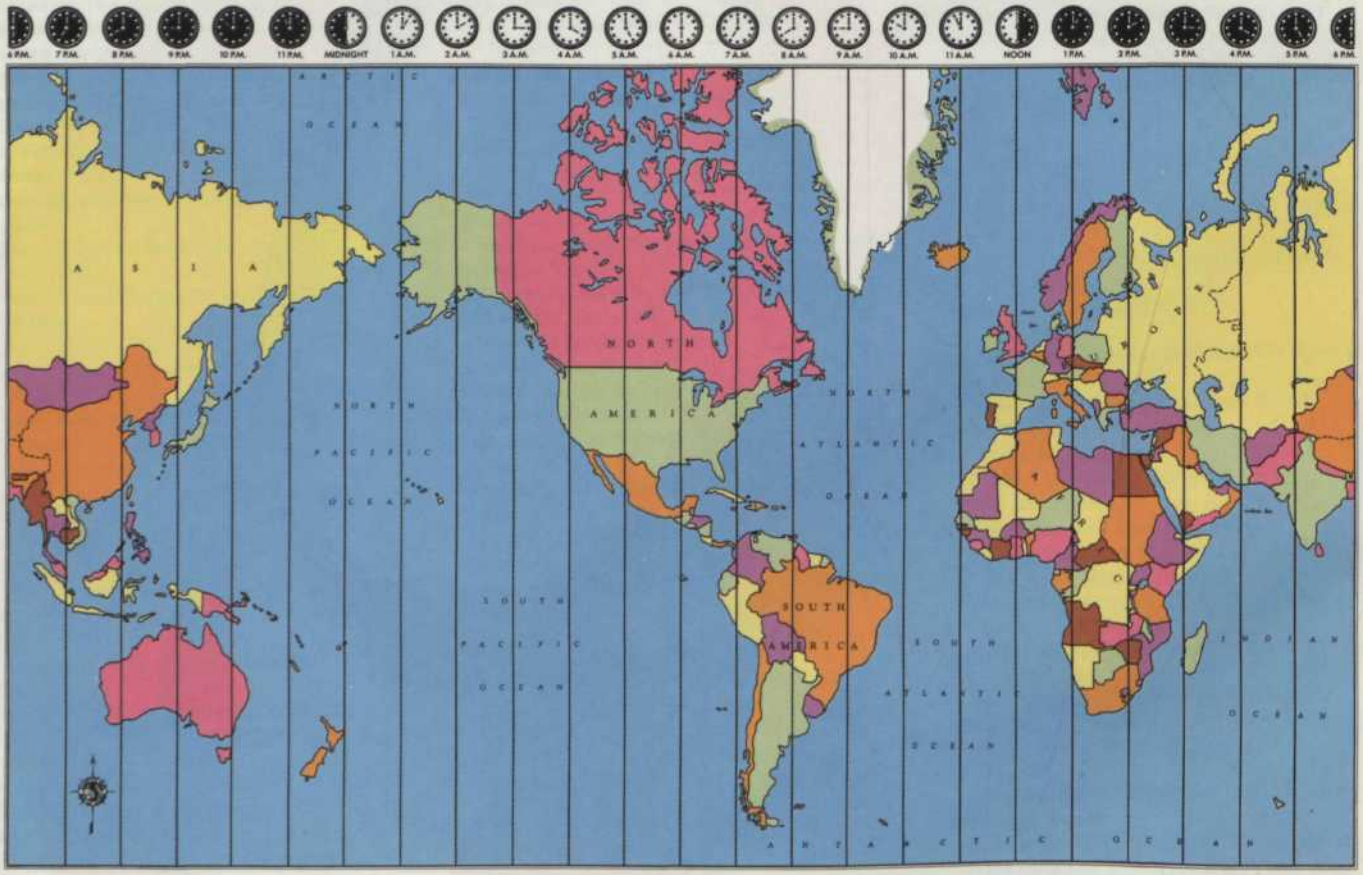
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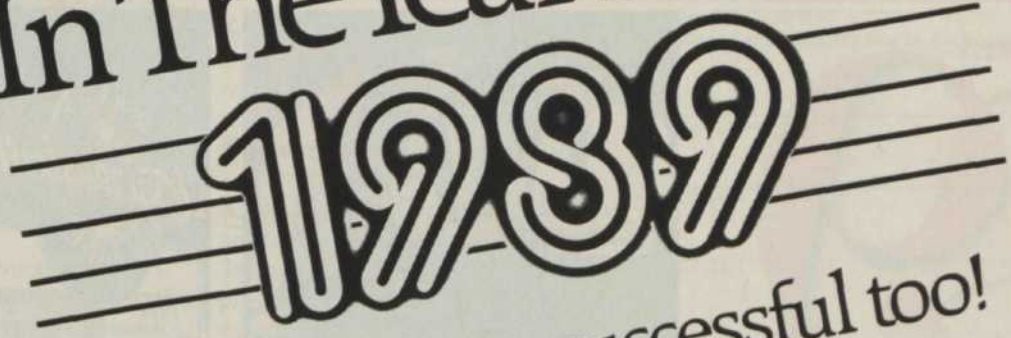
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MANAGING YOUR BUSINESS





PHOTO: LINDA SUE SCOTT

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PHOTO: DARIO PERLA

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COMMENTARY

Letters

The Battle Wages On

Donald C. Bacon did a good job getting out the facts on the minimum-wage proposal ["A Victory On Minimum Wage," November]. Some people, however, will continue to cover their eyes so they can't see the light. Sen. Edward M. Kennedy (D-Mass.) has a closed mind, and I observed one clerical worker thoughtfully reading the article and then exclaiming, "I still can't see why *anybody* would be against paying good wages."

Mrs. Robert F. Pool
McAllen, Tex.

I just read your article [on the minimum wage] by Donald C. Bacon. It makes me sick to my stomach. I would like to see Mr. Bacon, Sen. Orrin Hatch (R-Utah), members of the business groups, and those at the U.S. Chamber of Commerce try to live and support a family on $3.35 per hour instead of the salaries that they have to live on.

Lyle Bothel
Casper, Wyo.

Direct Line Fan

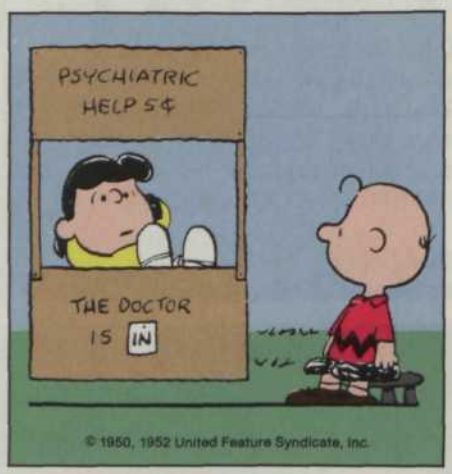
I read "Direct Line" each month with great interest and anticipation. I have gotten many interesting bits of information and valuable references.

What happens to the questions you are unable to put in the magazine? Have you ever thought of publishing a quarterly edition of the column? I would be interested in subscribing to something like this. As far as I'm concerned, your column should be called "Lots of things you've always wanted to know but never thought to ask, or knew whom to ask."

Thomas J. Kiefer
St. Louis

[EDITOR'S NOTE: It is true that we receive many more questions than we can answer. We try to choose representative questions and are exploring other ways to answer more. Nation's Business *is offering* Your Small Business Survival Guide*—containing questions most frequently asked in the column—free with new subscriptions. In addition, "Nation's Business Today," the weekday morning news program aired on the ESPN cable network and produced by the broadcasting arm of the U.S. Chamber of Commerce, carries a "Direct Line" segment every Friday, 6:30-7:00 a.m. and 7:30-8:00 a.m. EST. Letters not answered in the magazine column may be answered on the television program.]*

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*



The Subject Is Starting Over

A couple of acquaintances have sent me copies of Harry Bacas' article "Starting Over Against The Odds" [November], and a surprising number of people have called me to say they saw it.

One lady, with whom I am not acquainted, phoned from Michigan to say that her husband was facing a similar situation. She spent 15 minutes asking my advice. I felt like Lucy in the "Peanuts" comic strip—The Doctor Is In!

It was nice talking to Harry Bacas when he interviewed me for the article.

William M. Oard
Ideal Printing Company, Inc.
St. Petersburg, Fla.

Certified Public Sources

Family businesses have been a hot market for decades for non-national CPA firms ["Family Business: A Hot Market," September].

In the future, if you desire experienced sources on small businesses, I suggest that you contact a local CPA firm for your information and not some big business that is merely jumping on the small-business bandwagon because servicing big business is a no-growth industry.

Roger H. Burgher
Seattle

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Small-Business Update

By Donald C. Bacon

Business' Role In War On Drugs

Recipients of federal contracts valued at $25,000 or more must establish broad programs to assure that their workplaces are drug-free, Atty. Gen. Richard L. Thornburgh has reminded the private sector.

A key provision of a sweeping new law that attacks drug abuse from several directions imposes responsibilities on companies and individuals for curbing the use of illegal narcotics in the workplace.

Thornburgh told a recent meeting of the board of directors of the U.S. Chamber of Commerce that, along with stepped-up enforcement and interdiction, the measure emphasizes "user accountability."

He stated: "It is long since past the time when that should be the focus" of antidrug efforts.

Under the law, businesses holding federal contracts must certify that they are taking specific steps to provide a drug-free workplace.

Those steps include official notification to all employees that the manufacture, distribution, possession, or use of illegal drugs is forbidden in the workplace.

The notice also must specify the actions to be taken against violators of the ban and must inform employees that adherence to the antidrug plan is a condition of employment.

The plan for the drug-free workplace must provide for counseling of employees and for access to rehabilitation.

The federal agency awarding the contract can cancel or suspend contracts if it determines that the recipient either submitted a false certification or did not abide by the terms of a drug-free program. A business that fails to meet provisions of the law could be banned from receiving federal contracts for as long as five years.

Thornburgh cited studies showing that so-called recreational drug users were far more likely than nonusers to be involved in accidents on and off the job, to file claims for workers' compensation, and to be late or absent. The attorney general said the study also showed that the average job performance of such users is only 67 percent of their potential.

Thornburgh rejected the idea of legalizing presently banned drugs, stating that such action would "send a dreadful signal about our values as a nation."

He said he could not think of any valid argument for legalization beyond a purely "cost-effective approach that ignores human values."

National Chamber Foundation Honors President Reagan

President Reagan has received the formal appreciation of the American business community for his "efforts to promote free enterprise both in our own country and throughout the world."

The tribute came from the National Chamber Foundation, an affiliated organization of the U.S. Chamber of Commerce.

The foundation presented the president with a plaque "as a token of our esteem and profound appreciation to you for your dedication, commitment to principle and selfless courage."

J. Paul Sticht, chairman of the foundation's board and former chairman of RJR Nabisco, Inc., said in making the presentation: "It is our belief that the 1980s will be recorded as a critical turning point in history, when the world finally awoke to the destructive folly of socialism and recognized the inherent superiority of free enterprise.

"And we believe also that history will credit your inspired leadership as the critical factor in this extraordinary and unprecedented awakening."

The presentation followed a major address by the president on trade policy

J. Paul Sticht, chairman of the National Chamber Foundation and former chairman of RJR Nabisco, presents President Reagan with a plaque expressing the American business community's appreciation for his "efforts to promote free enterprise both in our own country and throughout the world."



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Small Firms' Forecasts For 1989 Pay Hikes

Small companies expect to keep pace with larger firms in awarding pay raises to employees in 1989, according to a survey by Hewitt Associates, a consulting firm in Lincolnshire, Ill.

The Hewitt survey of 1,315 employers found that 1989 base-salary increases among nonmanufacturing firms with annual revenues under $50 million are expected to average 5.7 percent for executives, 5.1 percent for exempt salaried employees, and 4.8 percent for nonexempt salaried and hourly employees. "Exempt" employees are those not eligible for overtime pay under the Fair Labor Standards Act.

Increases planned for next year among companies with revenues of $1 billion to $5 billion are forecast to rise slightly from 1988, averaging 5.6 percent for executives, 5.1 percent for exempt employees, and 5 percent for nonexempt workers.

In 1988, raises at small firms averaged 5.6 percent for executives, 5.1 percent for exempt employees, and 4.9 percent for nonexempt employees.

Tips For Cutting Crime's Toll On Small Business

Although small-business owners increasingly are the victims of crime in the workplace, they often ignore even the simplest precautions that could significantly reduce their exposure to such dangers.

So warns Stan Rosenthal of Rio Rancho, N.M., who writes and lectures on workplace crime for the Service Corps of Retired Executives (SCORE).

"A great deal of consideration is given to the many facets of operating a business," Rosenthal says, "but for some reason, losses due to crime are more or less accepted ... in the sense that we are not motivated to go beyond the fact that we know it exists and [to] do something about it."

Recently, in SCORE's newsletter, *The Savant*, Rosenthal offered employers these tips to thwart would-be robbers:

- Don't accumulate cash. "Cold cash, within easy view, lures the robber."
- Keep cash and checks separate, to avoid the loss of the checks. "If checks are taken, they are usually thrown away by the robber, but the store is out the money" if the checks are not replaced. For the same reason, food stamps and charge slips should be kept separate from cash.
- Cash registers should be emptied an hour before closing, and all cash should be placed in the store's safe as soon as possible. The safe should be kept locked, with the combination known only to the owner or president and one other key person.
- Bank deposits of accumulated cash should be made daily, in daylight, and at various times. Routes to the bank should differ each day.

This Month's NB TIPS

A new guide tells small-business vendors how to become established in the federal Small Purchase Program, which directs agencies to place with small firms all orders of products and services below $25,000. *The Hidden $17 Billion US Govt Market* is available for $26.95 from Danbury Press, P.O. Box 613, Suffern, N.Y. 10901.

The Department of Energy invites small firms to apply for financial assistance for researching their own technologically innovative ideas. DOE will award some 120 contracts of up to $50,000 each. Write SBIR Manager, U.S. Department of Energy, Washington, D.C. 20545, or call (301) 353-5707. The deadline for proposals is Feb. 16, 1989.

An Ignored Law Leaves Small Business Stranded

Federal agencies are required by law to minimize, wherever possible, the regulatory burden on small business.

The message apparently hasn't been getting through to all of the bureaucracy.

The Small Business Administration's Office of Advocacy reports that some agencies ignore the Regulatory Flexibility Act, which seeks to lessen the disproportionate impact of bureaucratic rules on small operators.

The SBA criticizes particularly the Agriculture Department, the Internal Revenue Service, the Interior Department, and the Labor Department's Wage and Hour Division.

The SBA cites the Internal Revenue Service as an example of an agency that appears to pay little attention to the regulatory statute. "IRS pronouncements are especially important to small businesses because they frequently impose new compliance standards, paperwork, or recordkeeping burdens," the SBA says, and yet "no IRS pronouncement has ever been subjected to the Regulatory Flexibility Act."

The SBA describes the law as "quite successful" in some areas but says it has a major flaw: It prohibits judicial review of agency actions or inaction. The SBA has asked Congress to give small businesses and others the right to sue.

The Real Entrepreneurial Angels Are Your Neighbors

A portrait of the "real" entrepreneurial angels—those who most often provide risk capital for small businesses—emerges from a survey of 463 investors prepared for the Small Business Administration.

Most are not venture capitalists or other professional investors, whose minimum-investment requirements often exceed the reach of small businesses.

Instead, entrepreneurs generally find external capital through informal networks of local business owners and managers, relatives, and friends living near the new or expanding business.

Informal investors form a diverse group, generally above average in age, education, and affluence, the study found. Few are millionaires. One third have family incomes below $60,000.

Twenty-one percent of them invest less than $10,000, 43 percent less than $25,000, and 64 percent less than $50,000 in a single entrepreneurial deal.

Survey participants said they accept about 3 out of 10 proposals for investment.

The most frequently cited reasons for rejecting deals were insufficient growth potential, overpriced equity, lack of management talent, and inadequate information about the entrepreneur or key personnel. NB

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COVER STORY

Small Business: An Upbeat '89

By Roger Thompson

Six years of prosperity have put small-business owners in a decidedly upbeat mood, and they are betting heavily that the economy will remain prosperous throughout 1989. Most expect it to be another strong year for rising employment, sales, and profits.

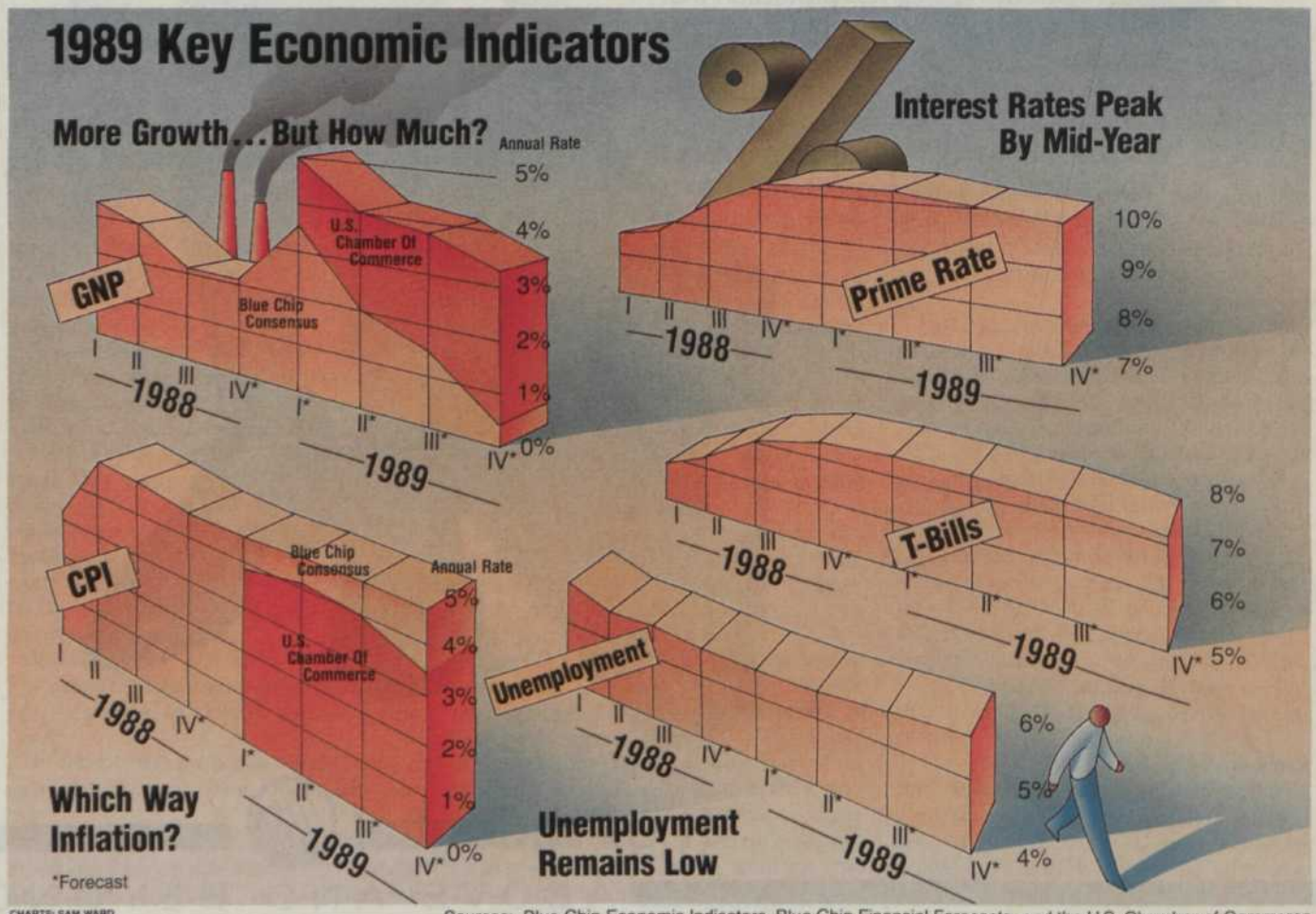
Such unrestrained optimism isn't in vogue these days among some leading economists, particularly those who are wringing their hands over what they view as too much growth—not too little growth. They warn that we should cut our national economic growth rate significantly in 1989 to check the upward drift in inflation and to preserve the current record peacetime recovery.

The consensus forecast of 51 top economists surveyed monthly by *Blue Chip Economic Indicators*, a newsletter produced in Sedona, Ariz., is shaped largely by those who advocate touching the economy's brakes now to avoid a collision with inflation-driven recession later. Accordingly, the consensus holds that growth will advance at a sluggish, noninflationary rate of 2.5 percent in 1989, compared with a robust 3.8 percent for 1988. (See the chart below.) That would be the slowest annual growth rate since the expansion began in November, 1982.

Roughly half of the Blue Chip economists now expect a recession in 1990.

The U.S. Chamber of Commerce participates in the Blue Chip survey, but it doesn't adhere to the consensus view. In fact, the Chamber leads the pack with a brand of optimism that more nearly reflects the outlook of small business.

The Chamber forecasts that the economy will grow at a noninflationary rate of 3.7 percent in 1989. It maintains that current concern about inflationary pressures is exaggerated and that the rise in the consumer price index, the most popular gauge of inflation, will slip to 3.9 percent, down from 4.1 percent for 1988.



CHARTS: SAM WARD

Sources: Blue Chip Economic Indicators, Blue Chip Financial Forecasts, and the U.S. Chamber of Commerce

The past 72 months of prosperity have made small-business owners optimistic in forecasting how the economy and their own companies will perform throughout the coming year—even if growth tapers off.



Most economists, however, view a 1989 growth rate exceeding 3 percent as too inflationary. Even after projecting an anemic 1.5 percent growth rate during the second half of 1989, the Blue Chip consensus still sees inflation for the year inching up to 4.9 percent.

Which outlook will prove to be more accurate? Economists should have the upper hand since they invented the tools of forecasting. But small-business owners have challenged the consensus crowd before and won.

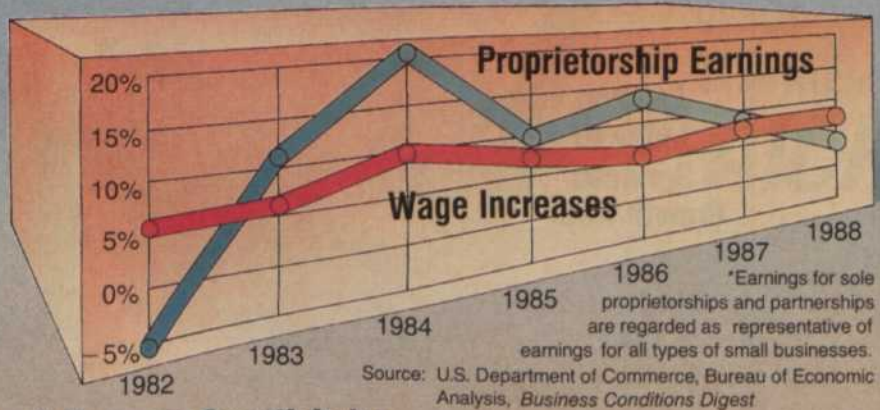
Shortly after the October 19, 1987, stock-market drop, the Blue Chip consensus predicted that growth would slow to a crawl in 1988. Many economists talked of imminent recession or worse. Small-business owners ignored the pros and confidently predicted good times in 1988. And they were right.

Was it just dumb luck? Maybe. But William C. Dunkelberg, dean of the business school at Temple University, in Philadelphia, doesn't think so. "Small-business owners look at their own markets and make their own forecasts," he says. "If things look good, they are willing to hire more people, to make capital expenditures, and to build inventory. The reason they are such good forecasters collectively is that their collective decisions shape the economy." Hence, the view from the playing field at times may be more enlightening than the broader perspective afforded by those who stand on the sidelines and keep score.

"All those economists have been saying for years that the economy couldn't grow as fast as it has," says Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce. "My colleagues in this profession simply don't understand entrepreneurship. As a result, they're consistently wrong in their forecasts."

Professional economists, as a group, also tend to be more pessimistic than business owners, says James Newton, president of Economic Perspectives,

Wage Increases Overtake Growth In Proprietorship Earnings*



*Earnings for sole proprietorships and partnerships are regarded as representative of earnings for all types of small businesses.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Business Conditions Digest*

Small-Business Growth Index Shows Strength In Most Regions*

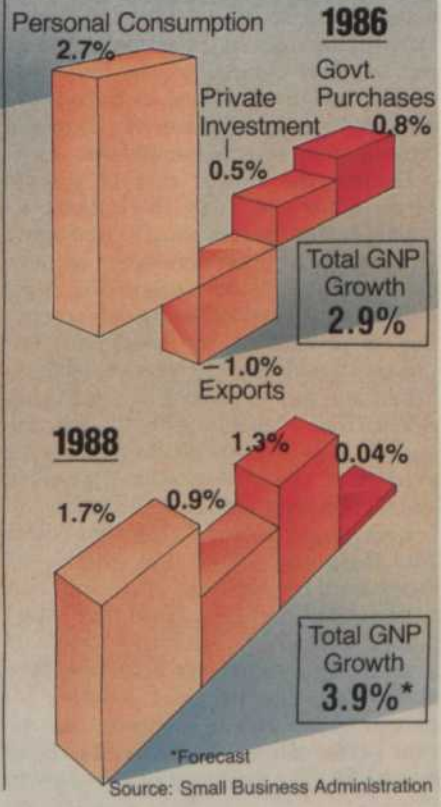
Region	% Employment Change	% Sales Change	% Change In New Incorporations Rate	Small Business Index
Mid-Atlantic	2.21%	1.76%	3.56%	6.81%
East North Central	1.95	0.81	7.53	6.19
Pacific	2.25	2.72	−4.50	5.84
South Atlantic	2.27	1.18	0.01	4.70
New England	2.33	1.14	−3.92	3.86
West North Central	1.82	0.80	−0.43	3.37
East South Central	1.08	0.93	−5.54	1.03
West South Central	1.82	1.02	−10.55	0.38
Mountain	1.31	2.35	0.66	−2.33
All Small Businesses	1.97	1.30	−0.28	4.46
All Large Businesses	0.92	0.35	na	na

*First half of 1988. Percent change over the previous six months

Source: American Express Small Business Growth Index

Trends In The Economy's Pattern Of Growth 1986-88

Contributions To GNP Growth



Source: Small Business Administration

Inc., a Delaware, Ohio, market-research and consulting firm. "Economists are well-known for wringing their hands and overreacting to everything on the horizon," says Newton. "These same geniuses last year said everything was great before the stock-market crash. And afterward, they said everything was horrible. They were wrong on both counts."

"Contrary to some analysts' predictions that the current economic expansion may come to a close, small business expects an optimistic future," says James P. O'Halloran, director of Arthur Andersen & Company's Enterprise Group, which deals with small and emerging companies. The Chicago-based accounting firm's survey of 21,000 small-business owners showed that 35 percent expect sales increases exceeding 10 percent in 1989. Forty-eight percent expect to add employees.

The Arthur Andersen survey was by far the most ambitious of its type. Four smaller ones produced similar results:

- A survey of 565 small businesses by *D&B Reports*, a publication from Dun and Bradstreet Corporation, found 71 percent are optimistic about the economy in 1989, the highest optimism level since 1984.
- BDO Seidman, an accounting and consulting firm, surveyed 252 business owners with annual sales of $2 million to $80 million—a middle-market survey—and found that 77 percent believe good times lie ahead for 1989. Half expect growth of 30 percent or more over the next five years.
- The *Nation's Business*-Ernst & Whinney survey of 500 small-business owners, conducted before the November general election, found 70 percent optimistic about the economy in 1989. Fifty-one percent said they plan to add employees, and 38 percent plan capital

Continued on Page 16

Slower Growth Expected For The Service Sector

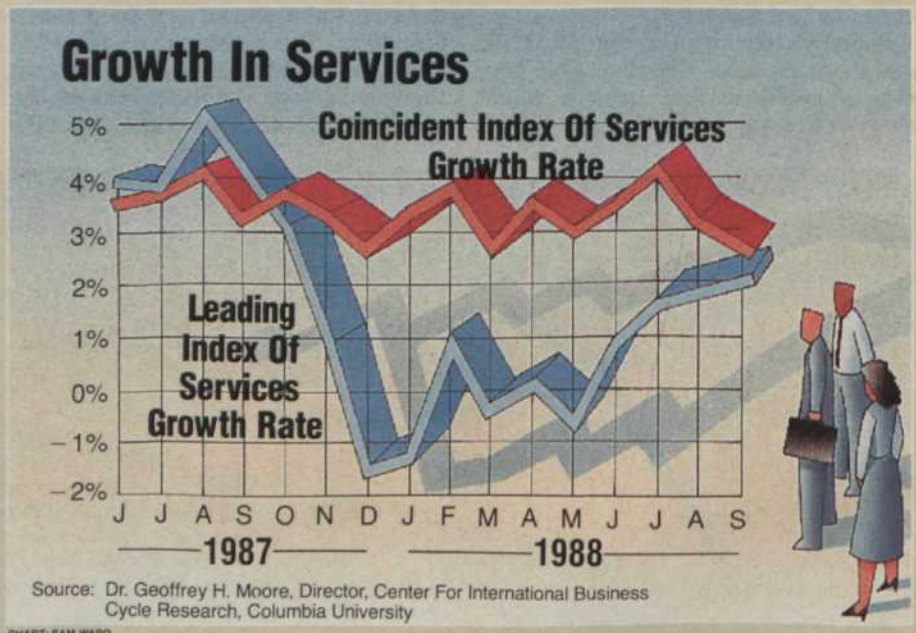
By Joan C. Szabo

The economy's booming service sector will continue to grow in the new year, but its pace will be somewhat slower than it was in 1988, says Dr. Geoffrey H. Moore, director of the Center for International Business Cycle Research at the Columbia University Graduate School of Business, in New York.

Moore recently developed the first set of monthly leading and coincident indicators of the service sector's performance because of the growing importance of services in the economy. Funding for development of the indicators came from the Coalition of Service Industries, an association of 16 major multinational service companies.

Despite the slower rate of growth forecast for this year, the outlook remains favorable for small companies. Over half of all service-sector employment and output now originates in 5.5 million small businesses, which account for 99 percent of the sector's enterprises. In addition, the service sector is assuming an increasingly significant role in U.S. economic growth, accounting for 76 percent of the work force, 68 percent of the gross national product, and 90 percent of all new U.S. jobs.

According to Moore's index of coincident indicators—those that roughly coincide with the business cycle—service-sector economic activity in the latest month for which data are available grew at an annual rate of 2.7 percent, down from the previous month's 3.1 percent. This decline suggests that recent performance of the service sector was weak. The median monthly growth rate in this index for the previous 18 months was 3.6 percent.



Source: Dr. Geoffrey H. Moore, Director, Center For International Business Cycle Research, Columbia University

CHART: SAM WARD

The leading index also has signaled weakness. This index, which leads service-sector activity by 6 to 12 months, recently grew at an annual rate of 2 percent. While this rate is encouraging, the index registered a generally soft performance throughout most of 1988, suggesting slower growth in services for 1989, says Moore.

In addition, experts warn that increasing competition in the service sector could lower 1989 sales and profits for some small-business owners.

"More and more companies are entering the sector, so that individual firms may find conditions less encouraging than the forecast indicates," says James Newton, president of Economic Perspectives, Inc., a market-research and management-consulting firm based in Delaware, Ohio.

In forecasting for selected service categories, Newton expects average or above-average spending by consumers for health care, personal business services, and recreation. The lowest growth pace, he says, will occur in personal-care services, such as laundry and dry-cleaning establishments, barber shops, and beauty establishments.

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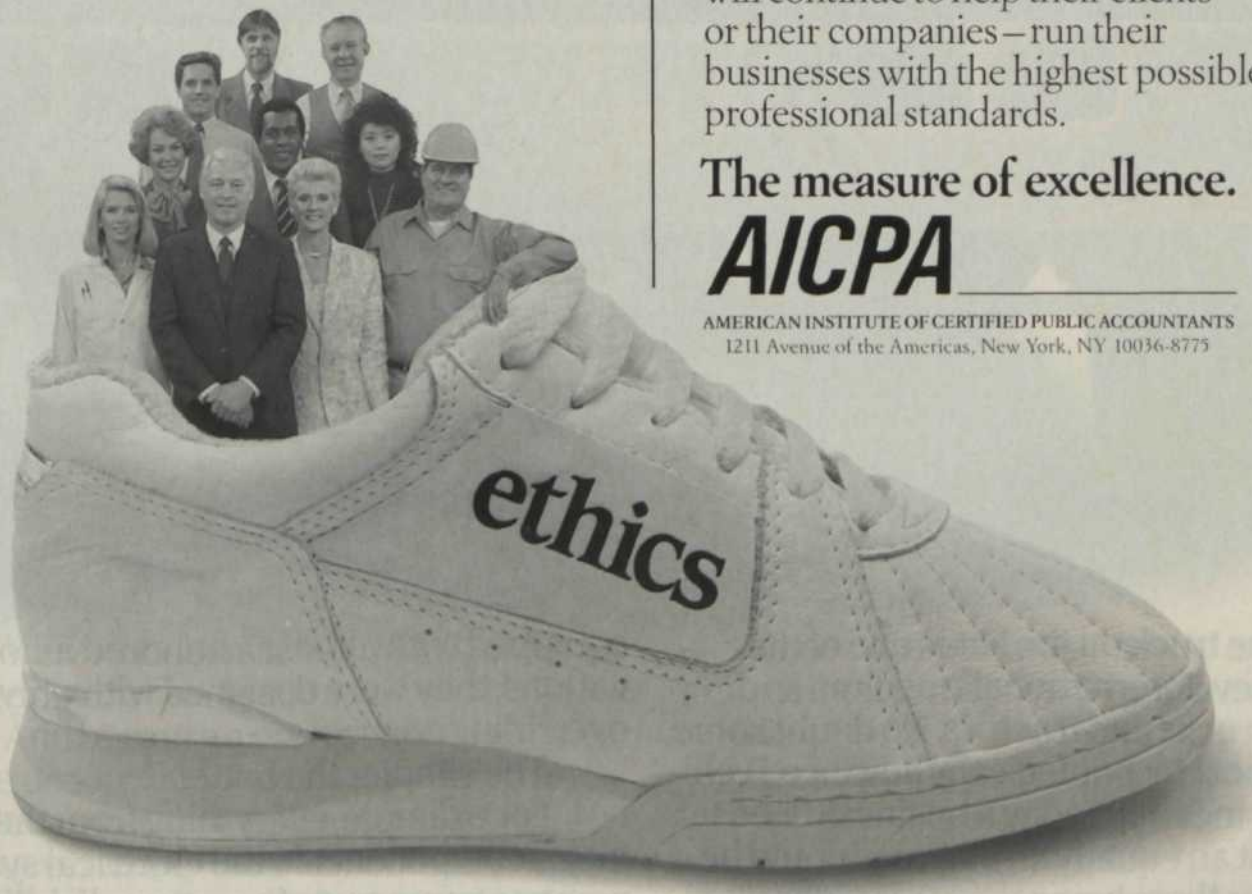
Members of the AICPA—the leaders of the accounting profession—recently voted to strengthen their Code of Professional Conduct even further. The new code defines conduct in terms of integrity, objectivity and independence, and addresses responsibility to the public interest.

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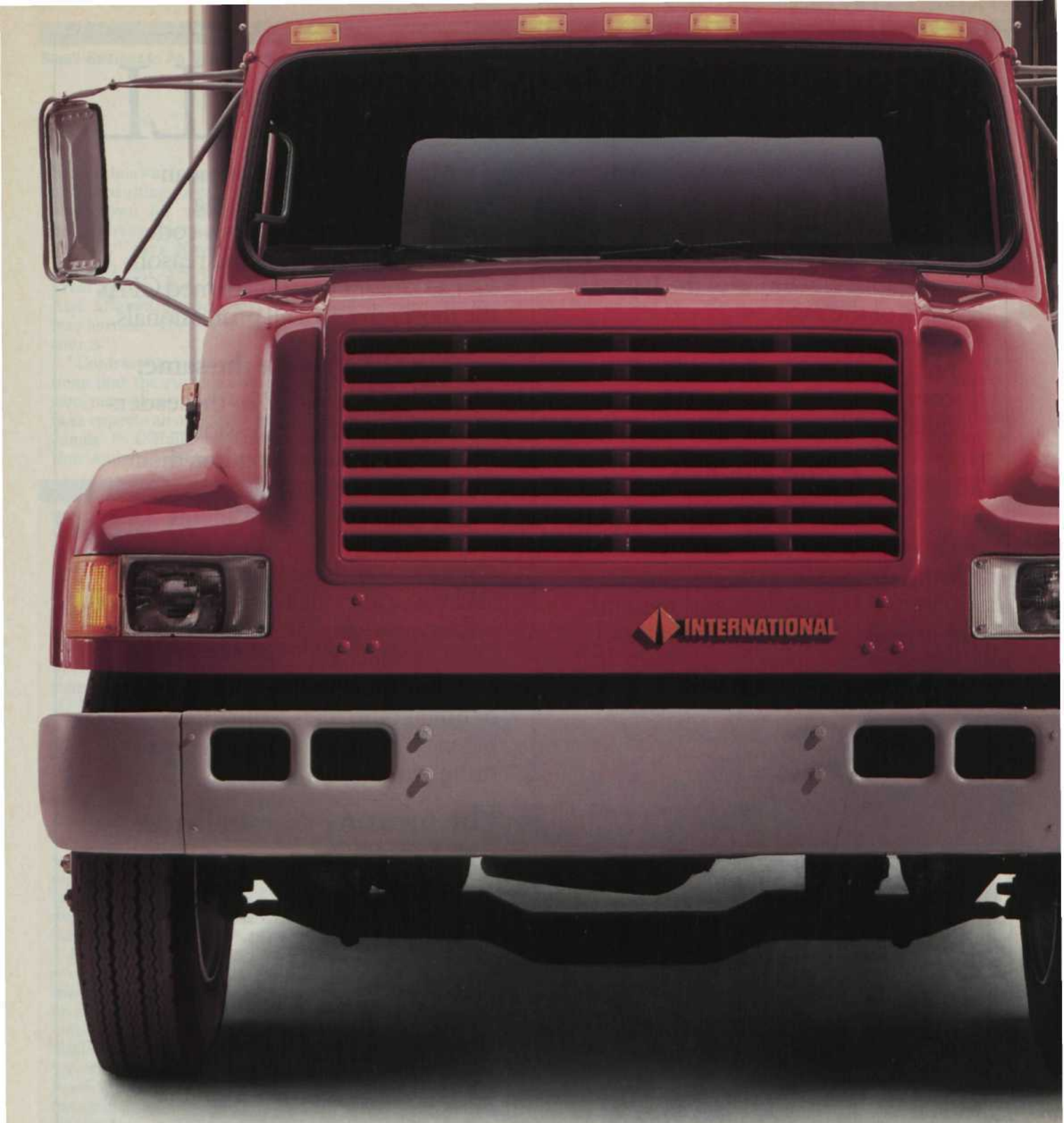
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Continued from Page 12
expenditures. Ernst & Whinney is an accounting and consulting firm.

● A survey of 120 entrepreneurs attending a postelection conference sponsored by Arthur Young, an accounting and consulting firm, found 95 percent predicting that 1989 would be favorable for small-business growth. One third of the group said they expect to hire 20 or more new employees during the year; 54 percent expect profits to climb 10 percent or more.

There is more at work here than entrepreneurial cheerleading for the economy. Small businesses have led the way in job growth and profits during the current expansion. Firms with fewer than 500 employees produce nearly half of the nation's goods and services, and they employ half of the private work force. Those with fewer than 100 employees account for just over half of the 16 million net new jobs created since November, 1982, when the recovery began. "The last few years have been the best ever for small-business profits," says Dunkelberg. "Costs have stayed down. And a lot of capital spending has been financed not by borrowing, but by internal earnings. Borrowing activity is at a record low level."

The semiannual American Express Small Business Growth Index shows that employment and sales grew during the first half of 1988, the latest period for which figures are available. (See the chart on Page 11.) The index rose sharply during the first half of the year, up 4.5 percent, compared with 1.5 percent during the second half of 1987.

Clearly, 72 months of prosperity have given small-business owners ample reason for optimism. Yet even as they have prospered, important changes have taken place in the economy—changes that have eroded small companies' much-heralded advantage over larger firms in sales and job creation. It's too early to tell whether these changes signal a brief detour for small firms or a long-term change in course.

Consumer spending and housing purchases led the first four years of the recovery, producing strong demand in areas dominated by smaller firms. Personal-consumption expenditures accounted for 85 percent of total growth during this period in every year except 1984. In contrast, consumption contributed less than half of total GNP growth in 1987 and again in 1988.

"The smaller relative increase in consumption spending could be expected to have a greater effect on small businesses than on larger businesses, because smaller businesses still dominate the wholesale and retail trade," according to the SBA's *The State of Small Business 1988*, an annual report to the president.

While consumption contributed less to overall growth, exports and capital investments took up the slack. The steep decline in the value of the dollar that began in February, 1985, spurred a boom in exports and investment in new manufacturing capacity, which in turn accounted for over half of the economy's growth for the past two years. This shift in growth was of greater benefit to large firms than to small ones.

"In 1988, much of the growth was in external demand [exports]," says Joe Duncan, chief statistician at Dun & Bradstreet. "But most small businesses serve internal demand. Consequently, small business really struggled this year. That's why small-business starts and incorporations were down."

For the first nine months of 1988, incorporations dropped 0.3 percent, to 522,247 from 523,820 during the same period in 1987.

The American Express Growth Index reflects this shift toward larger firms. During the first half of 1988, employment growth for small firms dropped to 2.1 times the rate of large businesses, compared with a 3.2-to-1 ratio during the second half of 1987. Small-business sales growth fell to 3.7 times that of large-business sales, compared with 8.2-to-1 during the second half of 1987.

"Large-business cutbacks, prevalent throughout the 1980s, appear to have

Continued on Page 19

Labor Targets The States On Benefits

Organized labor will continue to push its sweeping legislative agenda at the state level in the new year. Small business is particularly concerned about the potential cost of labor's wish list of mandated benefits.

Unlike its recent track record of losing at the federal level on legislation to require employers to provide parental leave and health insurance for employees, labor has registered victories on such issues at the state level, and it plans to add to those in the new year.

Wisconsin, for example, passed a comprehensive parental-leave law in 1988. It requires employers with 50 or more employees to provide up to six weeks of unpaid family leave as frequently as every 12 months for the birth or adoption of a child.

Maine also enacted a law concerning parental and disability leave. The 1988 law requires employers with 25 or more employees to provide parents with up to eight consecutive weeks of unpaid leave in any two-year period upon the birth or adoption of a child.

A far-reaching universal health-insurance proposal also became law in Massachusetts last year.

Under the plan, health insurance is available to all uninsured workers. A tax on employers who do not offer health insurance to employees will generate revenue to fund the program.

Other states are likely to try to enact legislation similar to that in Massachusetts, says Duane Parde, director of the American Legislative Exchange Council's Task Force on Labor. ALEC, based in Washington, D.C., is a business-funded organization of conservative state legislators. Parde expects California, Minnesota, Pennsylvania, Washington, and Wisconsin to consider the Massachusetts model in the new year. "Organized labor has beefed up its state efforts, and it is going to stay very active," he says.

Action on parental-leave legislation is likely to take place in Connecticut, Massachusetts, California, and Iowa in 1989, says Garen E. Dodge, an attorney specializing in employment issues for the Washington, D.C., law firm of McGuiness & Williams.

Labor also will keep up its drive at the state level for an increase in the minimum wage if it fails to win a boost in the federal law. "Labor will push for a higher minimum wage in Pennsylvania and other Eastern seaboard states with strong labor movements," says Michael Tanner, director of ALEC's Task Force on Health and Welfare.

Labor's efforts to saddle business with the costs of social programs will continue to grow in the states, says Tanner, and small businesses will especially suffer. "They are the ones that can least afford the mandated-benefits agenda."

—Joan C. Szabo

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What You Can Expect In 1989

Slower economic growth in 1989 is just what the economy needs if the recovery is to continue, says Thomas A. Gray, chief economist at the Small Business Administration. Following are excerpts from a *Nation's Business* interview with Gray, presented here in question-and-answer format.

What will be the economic climate for small business in 1989?

The economy will begin the year with strong growth but will taper off as the year progresses. Gross national product will be growing very slowly or not at all by the fourth quarter of the calendar year. That means small-business sales will grow more slowly, particularly in the construction and durable-goods-retailing industries. Consumer expenditures will grow but at a slower rate than GNP, as consumers increase savings and limit the expansion of consumer debt. The service industries will continue to do better than most retailing, but there will be some slowdown in the rate of growth of business services, including temporary personnel services.

Do we need to slow growth to stave off inflation in 1989?

Inflation by one index increased from an annual rate of approximately 3.3 percent in the first quarter of 1988 to an annual rate of approximately 5 percent in the second and third quarters. If the rate moves above 5 percent in the fourth quarter, it is almost certain that the Federal Reserve Board would attempt to slow growth in the economy by increasing interest rates.

What regions will be most favorable for small-business growth?

Some regions will be better for small-business growth in 1989. Normally, I would say those regions with higher growth in the previous year would be the best choices for business start-ups. We are so close to full employment, however, that those states with very low unemployment rates may not be a good bet in 1989. I think that those states with moderate unemployment rates, in the 5 or 6 percent area, may be the best locales for new consumer-oriented businesses. Let me hasten to add, however, that every start-up opportunity should be evaluated in terms of a specific situation. In the worst of times, some start-ups will do very well.

"Small-business sales will grow more slowly, particularly in the construction and durable-goods-retailing industries," during 1989 because economic growth will taper off by the end of the year, says Thomas A. Gray, chief economist at the Small Business Administration, in Washington.



PHOTO: T. MICHAEL KEZA

Since small companies generally offer lower wages and fewer benefits than large companies do, can small companies compete with large ones in a tight labor market?

On average, small businesses do pay lower wages than larger businesses, but many smaller businesses use highly skilled labor and pay competitive wages and benefits. Smaller businesses can also compete for scarce labor resources by providing more challenging and satisfying work opportunities. Excess demand in any market implies a rising price, and wages can be expected to rise sharply if the economy continues to expand at the growth rate experienced during the first six months of 1988. Smaller businesses will be hurt in this competition, relative to large businesses, but will make adjustments in work practices, such as more overtime and attempting to shift part-time workers to full time, to minimize problems.

Is small-business sentiment a good gauge of the 1989 economy?

Small-business owners are probably as good as any group in the economy at forecasting the trend for business. What small-business people—or, for that matter, any other group—cannot foresee is the unexpected news that may have a serious effect on business trends.

For example, price inflation might shift up to the 6 or 7 percent level, causing the Federal Reserve to boost interest rates and lower demand in the economy. No one can predict the exact timing or the precise probability of such an event.

How sensitive is small business to a rise of 1 or 2 percentage points in interest rates next year?

That depends on the extent to which the interest-rate increase inhibits growth demand in the economy. Higher interest rates typically mean a higher cost of doing business. How much the economy slows down is difficult to predict, but a 2 percent increase in interest rates would probably bring on a fairly immediate recession. A 1 percent increase in rates would slow growth significantly, but almost certainly would leave growth positive in 1989.

Did Wall Street do the economy a favor in 1987 when it dropped 508 points in one day?

From the perspective of 20/20 hindsight, it appears almost certain that the October, 1987, "crash" in the market did the economy a favor by slowing the rate of growth of consumption expenditures and providing some time for businesses to increase output capability to meet escalating domestic and foreign demands. As a consequence, we are now in the 73rd month of continuous growth. This is the longest peacetime expansion since reasonably accurate recordkeeping began in the 1850s.

Continued from Page 16

bottomed out," says David Birch, a Massachusetts Institute of Technology professor who analyzes the American Express figures.

"Additionally," he adds, "large-business employment growth is now accelerating, and sales growth, almost nonexistent last year, is beginning to rise to the level of high-performing small businesses."

Small business may regain some of its relative advantage in 1989 as the nation's growth pattern shifts again, with less push from exports and investment and more from consumer spending. "We've had a 20 percent growth in exports this year [1988], and that's an unsustainable rate," says Duncan. "Next year we'll move toward a more well-rounded growth pattern. We'll have a little bit of growth from consumer demand, a little bit from exports, a little bit from government spending, and a little bit from capital investments."

Whatever shape growth takes in the near future, small businesses increasingly must learn to cope with the impact of their own success.

Earnings of sole proprietorships and partnerships, which make up 85 percent of all small firms, grew by 7.9 percent or more per year from 1983 through 1987, according to the Small Business Administration. (See the chart on Page 11.) But the growth rate of earnings shrank to only 3.5 percent at an annualized rate through the first nine months of 1988. During the same period, wages rose by 7.1 percent, the first time during the recovery that wages have risen faster than earnings. "That's a big shift in the trend," says Thomas A. Gray, the SBA's chief economist.

More of the same is expected in 1989. The squeeze on earnings will continue because of increases caused by labor costs, interest rates, and prices charged by suppliers. "Put these three factors together, and it's clear that small firms are facing [another] drop in net income," Gray says.

Despite the squeeze on earnings, small-business owners remain buoyant about the economy because they are "reading the demand side" of their operations, which remains strong, says Gray.

"The problem," he adds, "is that demand is too strong. I think that the Federal Reserve will be forced to increase interest rates and slow growth. That would change the small-business perspective very quickly."

Accordingly, economists who favor the slow-growth scenario for 1989 fear that another strong year will do the economy more harm than good. They maintain that growth exceeding 3 percent in 1989 will push the economy into full employment and strain factory capacity, causing shortages of goods and higher prices. Too much consumer demand also would encourage more imports and retard the progress on reducing the nation's huge trade deficit. Such developments "virtually guarantee a steady acceleration of inflation that sows the seeds of the next recession," says Stephen S. Roach, senior economist for Morgan Stanley, an investment-banking firm.

The nation's unemployment rate has already fallen to a 14-year low of 5.3 percent, producing a tight labor market and rising competition for new workers. Fifteen states have unemployment rates below 4 percent. Currently, 25 percent of all small firms—35 percent in New England—are having difficulty filling job openings, says Dunkelberg.

"The question is how to sustain the expansion and economic growth at near full employment without generating unwanted inflation and all of its adverse consequences," says Allen Sinai, chief economist for the The Boston Company Economic Advisors, Inc. "Never in the postwar period has the United States been able to finesse the full-employment zone, that is, to grow the economy and its demands at near the pace of potential supply, without igniting an unacceptably high inflation and causing punishingly high interest rates."

The U.S. Chamber's Richard Rahn agrees that the key issue for policymakers is the economy's potential for noninflationary growth. But the Chamber's forecast for 1989 dismisses the slow-growth advocates as "disaster mongers." Says the forecast: "Since October, 1987, analysts have alternated between fears of recession and accelerating inflation. Neither fear has come to pass, but a continuation of this same disaster-lurking mentality is driving many of today's forecasts and, unfortunately, the [tight] monetary policy of the Federal Reserve. The common thread to the disaster mongers' stories has been their low estimate of growth potential."

"It's nonsense to believe that you can have too many jobs and too much wealth," says Rahn. "In the 1960s we ran unemployment at 3.5 percent, and we didn't suffer from inflation." He maintains that rising productivity, gen-

Law Helps Businesswomen

Female entrepreneurs recently won an important legislative victory when Congress passed and the president signed into law the Women's Business Ownership Act of 1988. The bipartisan measure, which is designed to assist the development of small companies owned by women, will directly benefit 3.5 million women business owners. Among other things, the law will:

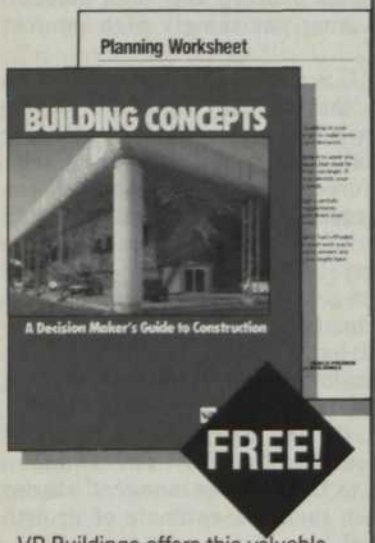
- Establish a three-year, $10 million matching fund to finance joint public/private demonstration projects that provide management training and technical assistance to women business owners.
- Amend the Equal Credit Opportunity Act of 1974 to eliminate the exemption for business loans. Financial institutions will have to inform applicants in writing that they have a right to a written explanation of a loan-application denial. Banks will no longer be able to ask the marital status of loan applicants.
- Establish a National Women's Business Council to submit recommendations to Congress and the president for a plan of action to support women business owners.
- Create a special program of loans guaranteed by the Small Business Administration for amounts up to $50,000. These "miniloans" would serve all small businesses, but they would be especially useful for the service sector of the economy, where women-owned businesses are concentrated.

"The law represents a bold step forward in recognizing the important role that women-owned businesses have in America's economic future," says Peggy Leonard, president of the National Association of Women Business Owners.

She notes that the law's technical-training provision and its new miniloan program should be especially beneficial to women who wish to own and operate small businesses.

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erated by strong capital investment and the increasing skills of an aging baby-boom work force, will offset the upward pressure on wages.

Surveys show that small firms aren't as concerned about the economy overheating as they are about the government overspending. Two thirds of the owners surveyed by Arthur Andersen and by BDO Seidman said the federal deficit is the No. 1 economic problem facing the new administration.

Six years of unprecedented budget deficits have been blamed for the nation's chronic trade imbalance, for holding interest rates above historic averages, and for helping to trigger the 1987 stock-market decline.

President-elect George Bush, whose pledge not to raise taxes was a major element of his campaign, has proposed a "flexible freeze" on federal spending to balance the budget by 1993. Based on continuing real economic growth that will generate additional revenues, the plan also calls for holding spending increases to the rate of inflation. But some prominent Democrats, including House Budget Committee Chairman William Gray of Pennsylvania, maintain that new taxes cannot be avoided if the federal deficit is to be brought under control.

Whatever course the Bush administration sets in economic policy, it's clear that small-business owners feel more comfortable with a Republican administration at the helm. More than two thirds of those polled by Arthur Andersen, BDO Seidman, and Dun & Bradstreet said George Bush was their man for the White House. A similar poll by *Nation's Business* found even stronger support for Bush, with 7 out of 8 favoring his election as president. **NB**

To order reprints of this article, see Page 76.

Small Business Briefs Mr. Bush

President-elect George Bush and those planning his new administration were briefed on issues of significance to the small-business community in a transition paper prepared by the Small Business Council of the U.S. Chamber of Commerce. Urging the new chief executive to "provide an economic environment in which small and entrepreneurial businesses can form, grow and prosper," the council spelled out small business' concerns in six major areas: budget and tax policy, capital formation, education, employment, international competitiveness, and leadership.

"The basic premise of a small-business policy has to be a recognition of what it is that smaller businesses do best," the paper stated. "The familiar, well-documented statistics on job creation, innovation, and the many other contributions that entrepreneurial businesses have made to our economy demand that we be constantly diligent in recognizing those benefits as we develop policies at the federal level."

The paper cited the need for federal policies that not only support growth-oriented, entrepreneurial businesses but also "encourage the continued role of the smallest businesses in our society." Such businesses, often referred to as community-based businesses, "provide the livelihood for families and the economic infrastructure for communities all across this country," the paper noted. By providing a stable economic base and creating jobs, the paper stated, community-based businesses make up "a vital part of the very fabric of which our culture and our economy are built. They deserve special attention and the support of federal policymakers."

The council called upon the government to recognize "the unique role played by small business as the primary point of entry for a large proportion of new workers" and thus to support "special incentives for smaller companies to train entry-level workers." The council said, "Policies which encourage and support high-quality education and training for all Americans, and which promote retraining, are necessary for America to remain competitive in a fierce new global economy."

In noting a need for U.S. programs that encourage employers and workers to "retool" to remain competitive, the council listed several policy options. They include an investment tax credit for business spending to improve worker skills, a tax credit for individual spending on training and education, and tax-free Individual Training Accounts to which individuals could contribute.

—Donald C. Bacon

A Good Start For New Hires

An orientation program attentive to new employees' needs can make a positive impression on them in their first days on the job.

By Gene Geromel

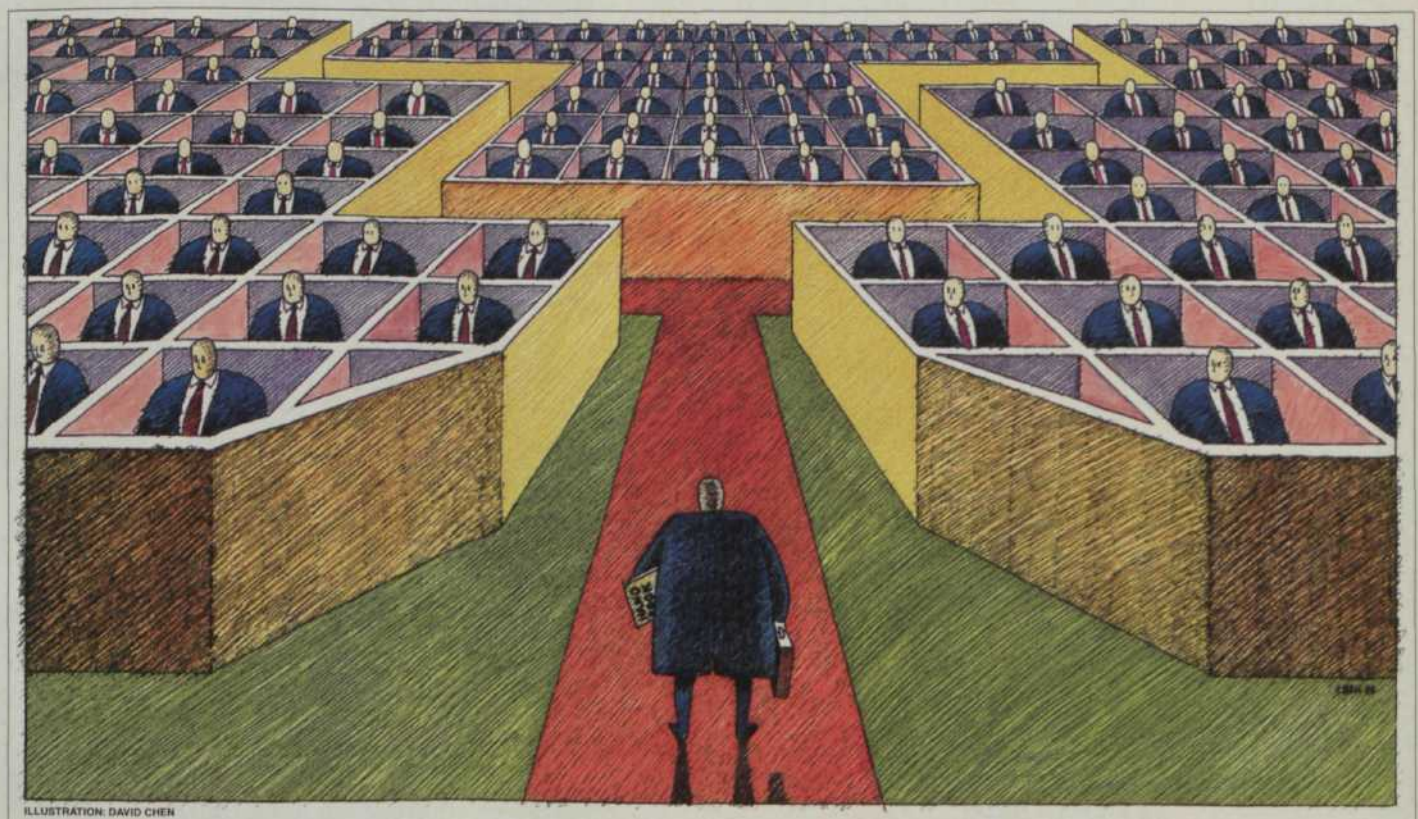


ILLUSTRATION: DAVID CHEN

It was my first job out of high school. They gave me a physical exam and a pamphlet on benefits, and they told me how dangerous a steel mill could be. But it was from the old-timers on the floor that I learned what was really expected of me.

The company management never told me about the corporate culture or the unspoken rules. The old-timers let me know where to sleep on what shift and which foreman to avoid. They told me how much work I was supposed to do and which shop steward I was to speak with if I had a problem.

Since then, I have worked for nearly 20 firms, corporations, and institutions. None has ever spent more than a few hours—some spent only a few minutes—in preparing me for my position in the organization.

A small-business owner might wonder, "Why bother with an orientation program?" Indeed, it may not be necessary—if the owner is not interested in keeping employees and increasing productivity and profit.

The first few days, even hours, of one's work often set the stage for the employee's attitudes for years to come. When you lay a poor foundation for new employees, you are taking a risk. Research shows that employees often leave a company within a year or two unless they have been thoroughly prepared for work in that firm.

Consider the cost of losing an employee. Even filling a low-wage job can be costly; there are expenses for advertising, for staff time in interviewing applicants, for secretarial help in filling out benefit forms, and for training a new hire to do even the simplest job. Each time an employee leaves, you incur those expenses again. It makes much more sense to keep an employee than to hire over and over again for the same position.

The costs of filling higher-level positions can be much greater. For example, Corning Glass Works, in Corning, N.Y., found that it cost $30,000 to $40,000 to hire and train a professional employee—an expense that was wasted if an employee left after a year or two. Corning instituted an orientation program, which has helped the company retain workers.

The program involves many hours of providing new employees an understanding of the company's goals and its vision and of the roles that they will play in Corning's future.

By making the company's employees feel they are important to the company, the program has helped to make them more productive and more satisfied with their jobs. In turn, they have made the corporation more productive and profitable.

Naturally, not every company can do what Corning Glass has done. A small business may not be able to invest $30,000 or more in an employee the first year, and it probably doesn't have a personnel department that can tailor an orientation program to meet various needs.

But a small firm can have an orientation system, and it does not have to be expensive.

Here are a few guidelines that you

Gene Geromel is a professor of management of human resources at Spring Arbor College, in Spring Arbor, Mich.

"The financial people are after me."

"Why?"

"It's all those new Cavaliers I ordered. They're great buys and..."

"I know how to handle them. Just tell them two things."

"Yeah?"

"Cavalier's roomier and rides on a longer wheelbase than Tempo."

"Got that. And..."

"And Cavalier's still priced hundreds less than Tempo.* That way..."

"Yes?"

"Even they'll see you're really using the old bean."



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may find useful in helping your new employees get a good start:

Make first impressions count. An orientation program can begin to have an impact on a person even before he or she reports for work; it starts with the job interview. To prevent new employees from becoming disillusioned, make certain that during the interview process they are given correct information about the duties and benefits connected with their jobs. Don't make impossible promises to them, and don't treat applicants with indifference.

Help with the transition. Your treatment of employees in the period between the day they are hired and the day they report for work is crucial. Employees who are moving to a new location may need help getting to know the community and finding a house or schools. Some studies indicate that the most important factor in a new hire's decision to stay with the job or leave it is whether the person's spouse and family are happy.

Handle paperwork deftly. Some applicants and new hires need help filling out employment forms, while others manage on their own. Make sure all are treated courteously. New employees' attitudes toward the company will begin to reflect what they perceive as the company's attitude toward them. If applicants or new employees are treated impersonally during the paperwork stage, they will assume that they will be treated that way throughout the time they are with your company.

Introduce new employees to the company. A most important goal of your orientation program should be to transmit the company's vision to your new employees. You want them to feel that the company knows where it is going and that they can be part of the effort to reach the firm's goals. As an owner, you may prefer to give new employees your personal view of those goals and the company's values.

One executive who always made his company's purposes clear to new employees was William Marsland, former publisher of the weekly *Chenango American*, in Greene, N.Y.

"People don't read this paper to find out what's going on in the world. They get enough of murder, rape, and Watergates from the city dailies," he would tell staff members. Marsland, who retired over a year ago, said that people "read this paper to hear about Cousin Judith's visit to Florida. They want to see their granddaughter's Girl Scout troop report in print. They want to read about their neighbor's son being promoted in the Navy. They want to know when the church services, the rummage sales, and the school ice-cream socials are. In short, they want to affirm their common life, and know that it is good. This is a service, this newspaper, not a watchdog or a crusade. We enable the community to speak to itself."

Marsland's clear vision of his paper's goals left no reporters or editors in doubt about his purpose—or theirs. And his vision doubtless contributed to the paper's circulation gains during his 30 years as publisher.

To help new employees understand the company's way of doing business, a number of firms use a "mentoring" system. For example, the Charrette Corporation, a Woburn, Mass., company that sells architectural, engineering, and art supplies, has older, more experienced workers take new hires under their wings. The more senior employees share information on how to treat customers, where things are stored, and what the boss likes and doesn't like. Most types of information communicated by a personnel department in a larger company can be conveyed by a long-term employee in a smaller firm.

Employees should be introduced to company policies and procedures as well as company expectations. If your firm has a dress code or an ethics code, explain and discuss such subjects during the orientation. If there are important safety procedures, make sure the new employee is told about them.

Make the necessary introductions to colleagues, supervisors, and department heads. New employees should not be put into a room of co-workers and left on their own. Let your people know they are part of a team.

And introduce your new employees to their jobs. Obviously, it can't be done in an hour. Some jobs will take days or even weeks to learn. Recognize this, and build in extra time for corrections, advice, and adjustments. Make sure an employee's supervisor understands that learning a job takes time. Encourage your more experienced employees to be patient with newer workers.

Obviously, an orientation program means more than just giving new hires a tour of the facility, helping them fill out forms, and introducing them to supervisors. You have to decide how long a program is to last, who will participate in it, what follow-up is necessary, and what tools, such as videotapes or overhead projectors, will be used to enhance presentations.

Fortunately, you don't have to figure out all these things by yourself. Many community colleges and four-year schools have specialists who can help companies design and implement orientation systems. Your local chamber of commerce may have a staff member who can develop such programs or who can show you other firms' programs.

Whether your organization is large or small, it must have an effective orientation system. It can help instill in those who join your company a sense of purpose and a feeling that they are part of a professional and caring organization. It can put them on the track for years of productive employment with you. **NB**

Design A Program With Variety

When you design your orientation program, keep in mind that employees differ not only in job skills, maturity levels, and professional needs but also in the ways they learn most effectively.

Some learn by hearing; when they listen to a lecture or a demonstration, everything becomes perfectly clear. Others, however, find that they learn best by doing.

Still others can best make sense of something when they see it in writing. But although many may learn by reading materials that describe the company and its benefits and expectations, this paper approach fails to meet the needs of the large number of men and women who learn most effectively by hearing or doing.

To be fully effective, your orientation program should use a variety of methods to reach employees with different styles of learning.

The program might include videotapes or overhead projections for those who respond best to visual methods, or computers or hands-on demonstrations for those who need to become involved in order to learn.

Whatever you do, do it well. The quality of your orientation program may be interpreted by your new employees as a sign of how important you think they are.

To order reprints of this article, see Page 76.

Take Charge Of Your Phones

Microcomputer software that gives you control of your company's phone system pays off in cost savings and more effective telephone use.

By Mel Mandell

Are you doing a lot of business with customers and suppliers over the phone? If your answer is yes, then you already know why it makes sense to gain control over your vital phone system—how it is used, what it is costing you, how you can make it work more cost-effectively.

These days such control is easier than ever to achieve because of inexpensive, widely available telemanagement software that runs on microcomputers.

What's more, you don't even have to restrict your microcomputer to telemanagement: The computer can collect data about calls placed at the same time as it performs other tasks.

That's how telemanagement is accomplished at Paterno Imports, a wine-importing company based in Chicago. Richard Dasher, assistant controller of the company, uses his AT&T 6300 microcomputer for a variety of chores while it simultaneously collects call-accounting information at the headquarters office, where 100 of the firm's 150 employees work. Once a month he or another employee in the accounting department runs off reports based on data stored automatically on the 30-megabyte hard disk.

The system, purchased from nearby Infortext Systems, Inc., in Schaumburg, Ill., was installed 18 months ago, and it soon was producing useful data. For example, Dasher discovered an inordinate volume of calls placed to the local number that reports lottery winners. That number was blocked out of the company's phone system, as were the "Dial-A-Joke" and weather-information numbers, and several "900" pay-for-information numbers.

As a result, during a period when Paterno Imports has grown and the number of its employees has risen, the firm's monthly phone bill of about $9,000 has dropped slightly. Phone charges declined in part because the number of trunk lines to the local central exchange has been cut to four from seven. In addition, a pair of in-out WATS lines was eliminated, leaving only two pairs. Dasher estimated that the $5,000 paid for the software and its connection with the company's phone system, a Rolm PBX (private branch exchange), will be recouped in less than three years.

Mel Mandell is a New York writer who specializes in technology subjects.

An $1,800 telemanagement system collects phone-call data at the Oregon Saw Chain Division of Omark Industries, in Portland, Ore. The firm's telecommunications staff includes, from left, analyst Ed Nelson, specialist Debbie Weintz, and Bill Westley, manager of telecommunications and office systems.



PHOTO: RICK RAPPAPORT—BLACK STAR

Smaller businesses, including those without microcomputers, can acquire a telemanagement system for much less than the $5,000 paid by Paterno Imports. For example, Newcastle Communications, in New York, distributes the CSS/Print 1500 system—a modified Oki printer that can be attached to your phone system—for $1,800. Some vendors offer microcomputer-based systems that cost as little as $395.

Such low-cost micro software can be adequate, as evidenced by the experience of a company in Portland, Ore., that manufactures chains and accessories for chain saws. The Oregon Saw Chain Division of Omark Industries, a Blount, Inc., company, was seeking to replace a homemade, 7-year-old telemanagement system. Oregon Saw Chain looked at mainframe packages costing as much as $20,000. The company chose an $1,800 system from Complementary Solutions, Inc., in Atlanta. The TeleMate package doesn't offer as many features as the higher-priced solution, but it comes so close that its price is irresistible, says Bill Westley, Oregon Saw Chain's manager of telecommunications and office systems.

The package is run on a clone of the IBM AT with a 40-megabyte hard disk. Most of the time, the micro, which contains an add-in board that permits it to act as a terminal to the company's mainframe, performs its regular duties as it automatically collects call data from the AT&T System 75 PBX. Once a month, the micro is instructed to print out the call-accounting reports, which takes about three hours.

Although abuse of the phones is not a big issue at Oregon Saw Chain, the system did reveal that a few employees were placing too many personal calls, and such calls have since declined.

The TeleMate package includes the latest phone tariffs, which means the vendor ships to customers—for an additional charge—a new version every time there is a substantial change in tariffs.

Telemanagement is particularly useful for organizations that bill their cli-

Take Charge Of Your Phones

ents for phone charges. The practice is common among law, accounting, engineering, and architectural firms; advertising and public-relations agencies; hotels and motels; and hospitals.

Specially designed systems assign charges by client or by project when a specific code is entered on the keys of the handset by the employee placing the call. In effect, the system also keeps track of how much time the principal on each account devotes to phone calls on behalf of that client. If that principal's time is billed at $100 per hour, for example, billing for only four hours a month comes to $400 in revenue—plus reimbursement for phone charges—and that is revenue that might have been lost if the telemanagement system had not been in place.

To be most effective, telemanagement software should be compatible with the company's accounting software. The problems of incompatible software were discovered by a law firm that bought a telemanagement system that did not feed data automatically to accounting. Each month, clerks spent hours keying data from the telemanagement reports into the accounting system. When the managing partner discovered his mistake, he replaced the system with one that automatically transfers phone charges to accounting, and the cost of the new system was recouped in only eight months through elimination of much clerical effort.

Telemanagement systems also can be used to check the accuracy of phone bills. One small company used its telemanagement reports to claim a $3,000 credit from a phone company for unwarranted charges, which practically paid for the system, bought from Control Key Corporation, in Peabody, Mass. The company that obtained the rebate is Car/Puter International, a Brooklyn-based service that arranges for clients to buy new cars for discount prices.

The company's president, Arnold W. Wonsever, says he is also convinced that personal phone usage by his 25 employees has dropped since the system was installed three years ago.

Using a telemanagement system to check phone bills' accuracy paid off with a $3,000 credit for Brooklyn-based Car/Puter International, says President Arnold W. Wonsever.

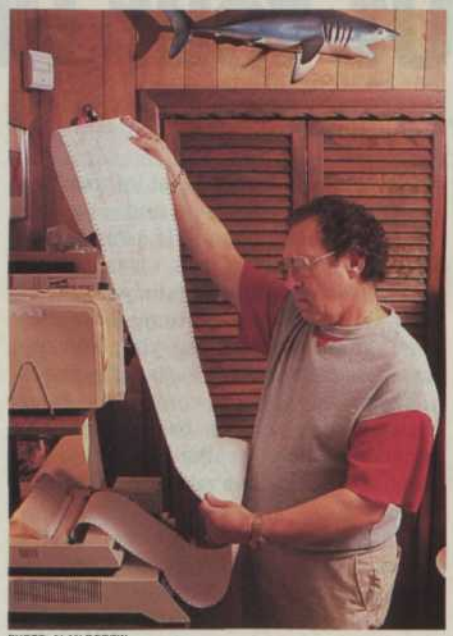


PHOTO: ALAN DOROW

Telemanagement packages also include a directory feature, which is particularly useful for companies with high employee turnover. The numbers for extensions assigned to each employee can be entered into the system. It can also print out up-to-the-minute company directories.

Choosing the right telemanagement system for your business is not easy. There are dozens of suppliers, especially those that offer the new microcomputer-based systems. Some of these manufacturers have not been in business long, so, before you buy, you should check their financial histories, their products, and their customer support. You should prefer to do business with a vendor who will be there to supply upgrades as phone tariffs change in years to come.

On the other hand, the systems are now so inexpensive and the payoff is so high and quick that making a wrong choice is not necessarily critical.

Fortunately, there are telecommunications consultants who can help you make the right choice of vendor and system.

Even if the system is not perfect, you will find that its mere presence inhibits employees from making too many personal calls.

This means that you are saving a lot on personal calls, and, more important, your employees are tending to business and not tying up vital communications lines when customers or suppliers are trying to call you. NB

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The Panasonic FAX+ System has a built-in copier function, a built-in speaker-phone with speed-dialing, one-touch dialing, and auto redial. Plus an Auto-Logic™ one-button answering system.

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With A Little Help From Her Friends

Mentors in Oregon and a secretary-turned-owner in Ohio show that success need not be a solo performance.

By Joan C. Johnson

In their efforts to reach the top ranks in their careers, "women typically have not had the same recognition, the same advancement opportunities, or the defined career paths that men have had," says Don C. Frisbee, chairman of PacifiCorp, which is a diversified electric-utility company based in Portland, Ore.

"You can't deny the data," Frisbee says. He cites statistics that show women earn only about 60 percent of what men make in the same job categories. Moreover, although women make up over 45 percent of the work force, they hold fewer than 30 percent of managerial and administrative jobs.

After considering such facts, Frisbee and 18 other members of the Oregon chapter of the American Leadership Forum (ALF) launched a mentoring program to help Oregon women overcome barriers to career advancement. The program was undertaken by the chapter's new members in 1987 as a community-service project in accord with the goals of ALF, a national leadership-development organization.

The immediate goal of the Oregon chapter's 18-month pilot project was to assist 50 women by pairing them with mentors who would act as informal advisers, providing support, counseling, and access to professional networks not customarily available to the women. The long-term goal was to develop a program that, if successful, could be continued and duplicated.

An ALF subcommittee put together a half-day training session to prepare the 50 community leaders recruited from corporations, small businesses, education, and government for their mentoring roles. The mentors chose "learning partners" from applicants recruited through business, educational, and community groups, and the news media. Each pair's progress has been monitored by an ALF member.

While the project will not be fully evaluated until sometime this year, ALF members have been seeing positive results, including several spin-off programs. One of the most unusual involves a rural high school with high teenage-pregnancy and dropout rates; students are being paired with women mentors who hold responsible positions in their community.

Mentoring helps women learn to do more than just deal with gender barriers, according to Nancy Wilgenbusch, president of Marylhurst College in suburban Portland and head of the project. "[It] can help them assess their strengths, their abilities, and opportunities. Mentors can often point out ways to get around obstacles and suggest ways to gain experience."

Her learning partner, Diane Machunze, who is working on a doctorate in education policy and governance, agrees. But the greatest advantage is that the experience has opened her eyes to previously unseen opportunities, she says. "I really had not thought of being in a leadership position in education, but that is my goal now. I want to be in a position to use my skills to improve the quality of educational programs."



PHOTO: RICK RAPPAPORT—BLACK STAR

Marylhurst College President Nancy Wilgenbusch, right, helps guide the career of Diane Machunze under an Oregon mentoring program designed for women.

Joan C. Johnson is a free-lance writer in Beaverton, Ore.

Women Mentors For Entrepreneurs

The U.S. Small Business Administration has begun a program aimed at developing the management abilities of women who own businesses. Called the Women's Network for Entrepreneurial Training (WNET), the effort recruits successful women business owners to act as mentors for women entrepreneurs.

Carol M. Crockett, director of the SBA's Office of Women's Business Ownership, says that women are starting businesses at nearly twice the rate of men. "WNET was developed to support the success of this emerging population of business owners."

WNET is designed to provide a year-long relationship between the mentor and the entrepreneur. SBA hopes to see the program operating in every state.

For information on WNET and the Office of Women's Business Ownership, call (202) 653-8000.





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MILES AHEAD

Five banks turned down her applications for business loans, but Robin DeGraff, a secretary who had the nerve to think she could buy the company she worked for, learned from each rejection. She won the needed financing and now owns Extol of Ohio, a Sandusky firm that makes industrial insulation for pipes and fittings.

A Gamble That Paid Off

By Bob D. Gibson

Five years ago Robin DeGraff was secretary to the plant manager at Extol of Ohio, an insulation-fabricating company in Sandusky. Today, the manager works for her. She owns Extol.

For DeGraff, now 32, the novel idea that a secretary could buy the company was a gamble that paid off. She purchased Extol four years ago when Childers Products, Inc., put the plant up for sale. Although competitors had expressed interest in the company, DeGraff, who had worked there since 1979, persuaded corporate executives that since she was an insider, she should be allowed to make the first bid. They accepted her offer.

Extol makes industrial insulation for pipes and fittings in the food-processing, pharmaceutical, and oil-refining industries. Since 1984, sales have more than doubled, to $1.7 million, and the company has expanded. DeGraff recently bought a facility in Houston. The company moved from its rented Sandusky site to a 22,500-square-foot building in nearby Norwalk. Employment rose from 9 to 22, and some of those workers might have been unemployed without Extol.

DeGraff's first big obstacle to buying the company was lining up financial support. Bankers were leery because she had no extensive managerial experience and no strong financial backing.

Five banks rejected her, and she analyzed each rejection to learn from the experience. Initially, for example, she and the plant manager went into a bank together, but she learned that since she was the one who was going after the money, "I had to focus on making myself a stronger part of the package."

She continually upgraded her plan to show she could make decisions—about the product line, about sales, and about managing people. The sixth bank, TrustCorp Bank in Toledo, financed the venture. She says she borrowed just under $100,000.

DeGraff attributes the firm's continued success to the nucleus of nine employees who have been with the business since 1984. "I could leave production in their hands while I was learning" other aspects of the business, she says. Her willingness to learn and her capacity for hard work saw her through her first year, when she spent many days in the field selling and learning the territory, she says, and many evenings "catching up on paperwork."



PHOTO: MIKE STEINBERG—BLACK STAR

And although she "paid dearly" in legal and accounting fees to learn how to set up the business structure, DeGraff says, she doesn't regret it. In fact, she readily advises would-be entrepreneurs to seek help, as she did, to learn about business. "Even though you have Accounting I and II, it doesn't come close to telling you what you need to know," she says. "If you don't know, you've got to have someone to guide you. I can make my own decisions, but it's sure a lot easier with help." NB

Bob D. Gibson is a free-lance writer in Prospect, Ohio.

For Women Of Enterprise

Avon Products, Inc., has announced its third annual search for outstanding women business owners who have succeeded in spite of hardship.

Five women will be chosen to receive the 1989 "Women of Enterprise Awards."

Each woman will receive $1,000 plus a trip with all expenses paid to attend an awards luncheon in New York City next June.



ART: WANGDON LEE—EUCALYPTUS TREE STUDIO

Candidates must have been profitably self-employed for at least five years and must have overcome a significant personal or economic hardship to achieve success. They may be nominated by an organization or may apply directly.

The deadline for applications is Feb. 15, 1989. To receive an application, send a self-addressed business envelope stamped with three ounces' worth of postage (65 cents) to Women of Enterprise Awards, Avon Products, Inc., 9 West 57th Street, New York, N.Y. 10019.



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This system can be used to translate various scientific/technical papers and machinery/equipment manuals. Special "glossaries" can be developed to adapt it for fields as diverse as medicine, electronics and aeronautics. Further development could lead to automatic telephone translation or even portable verbal translators for travelers.

In addition to the machine translation system, Hitachi's research specialists are also developing advanced transmission systems that send your phone calls or business data across great distances using hair-thin optical fibers and laser beams. They are also working on other new methods of communications, such as advanced telephone exchange systems, satellite communication systems, TV conferences, and so forth. At the root of much of this is our highly advanced computer technology.

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How The Baldrige Winners Did It

The first Malcolm Baldrige awards for improvements in quality went to three companies that took separate paths to attain excellence.

By Donald C. Bacon

How does a business win world recognition for delivering high-quality products and services?

The three winners of the first Malcolm Baldrige National Quality Award all took different routes to the top in their fields. But all agree that any attempt to achieve excellence must include the essential ingredients of strong leadership, a well-defined goal, and, most important, a company-wide commitment by all employees to strive for perfection.

The award, recognizing quality achievements of U.S. companies, was created by Congress in 1987 and was named for Malcolm Baldrige, who was secretary of commerce when he died that year in a rodeo accident.

Initial awards were presented at a White House ceremony in November to Globe Metallurgical, Inc., a small business headquartered in Beverly, Ohio; Westinghouse Electric Corporation's Commercial Nuclear Fuel Division, in Columbia, S.C.; and Motorola, Inc., in Schaumburg, Ill.

Commerce Secretary C. William Verity hailed the winning corporations as "inspiring examples of what can be accomplished in improving quality, strength, and market position."

A panel of experts from industry, professional and trade organizations, and universities chose the winners from entries submitted by 54 large and mid-sized manufacturing and service companies and 12 small businesses. Up to two awards may be given annually in each of three categories—manufacturing, service, and small business. No award in the service category was made for 1988.

Here are the 1988 winners and their quality-achievement programs:

Obsession For Quality

Three years ago, Globe Metallurgical, like most other U.S. makers of ferroalloys, was being buffeted by a rising tide of low-cost, imported metal. But instead of throwing in the towel, the company decided to make its products stand out from the competition by making them better and cheaper.

Globe turned away from older markets, such as commodity steel, and began selling to foundries, chemical companies, and segments of the aluminum industry, whose products require high-grade ingredients. Today, Globe alloys and silicon metal go into an ever-widening range of products, from automobile camshafts to caulking compounds.



After losing customers to foreign competition, Globe Metallurgical fought back by producing the highest-quality ferroalloys possible.

There was nothing modest about Globe's goal: to become the lowest-cost, highest-quality producer of ferroalloy and silicon metal in the world.

"We hit that mark," says Arden C. Sims, Globe's president and chief executive. "As a result, our market share has grown in the United States, Canada, and Europe."

Sales of the privately held company will be about $115 million in 1988, a substantial gain over the year before. Productivity will be up about 30 percent for the year, "and we attribute most of that to our quality effort," Sims adds.

Much of Globe's success, Sims says, stems from its adoption of a precise mathematical method of measuring improvements in product quality. The system, called statistical process control, requires workers to analyze frequent samples and plot data by hand on graphs. "We believe in going by hand rather than have computers do everything," says Kenneth Leach, vice president for operations. "We think it's significant when that person makes that point that they see on the graph." The graphs are later interpreted, and production adjustments are made as they are needed.

Communication is a key. Every level of the company has a quality committee. Workers hash out issues in their own weekly "quality circles." Finally, in each of the company's two plants, still another committee, made up of the plant manager and department heads, assembles each morning to review the previous day's performance.

Since quality became its obsession, the company reports customer complaints are down by 91 percent. In 1955, 49,000 pounds of its products were returned for replacement; in 1987, none was returned.

Dedicated To "Total Quality"

Westinghouse's Commercial Nuclear Fuel Division was once satisfied to produce fuel-rod assemblies that simply met regulatory requirements—no worse and no better than the law required.

That was before the parent company adopted what it calls a "Total Quality" strategy for winning a bigger share of world markets. Today, the division boasts that its fuel rods are the best in the world and that its customers can be "99.995 percent certain that each of the thousands of rods supplied will perform flawlessly."

Other Westinghouse divisions also have improved. Recalls John C. Marous, the company's chairman and chief executive: "At one point, we were very satisfied with statistical analysis in which 95 percent of our products went out the door perfect...We thought that anything beyond that would add to your costs. We now realize that that's no longer true. We've been forced to realize it by the competitiveness of the global marketplace."

In the past seven years, the Commercial Nuclear Fuel Division has improved

"At this insurance company Smith Corona is the policy."

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How The Baldrige Winners Did It



PHOTO: WESTINGHOUSE

Producing the flawless nuclear-fuel assemblies undergoing inspection here is part of the "Total Quality" concept at Westinghouse's Commercial Nuclear Fuel Divison.

the reliability of its product tenfold, Marous adds. He also cites other gains—such as sharply reduced time from conception to introduction of new products—for their contribution to greater customer satisfaction.

The division's Total Quality concept not only embraces use of the latest technological equipment, such as supercomputers and robotics, but it also puts heavy reliance on leadership and a motivated work force, according to the division's general manager, Mead D'Amore.

The division directs and coordinates quality improvements through a Quality Council, which is made up of key managers and others. The council uses statistical techniques and other evaluation tools to track progress in 60 crucial areas, called "Pulse Points." It also helps set measurable goals within each unit, down to the individual worker. Workers, organized in project-oriented teams, help identify quality-improvement opportunities and recommend initiatives.

"Our long-range goal was, quite frankly, to be the best in the world, as perceived by our customers," says D'Amore. According to Westinghouse Chief Executive Marous, that goal has been achieved four years ahead of schedule.

"Total Customer Satisfaction"

Adherence to the old maxim that "the customer is king" is being raised to the level of an art form at Motorola.

Managers, in their quest for higher all-around quality, carry cards with printed reminders of the company's ultimate objective: "Total Customer Satisfaction." Corporate officials and business managers wear pagers to assure that they are always available when a customer calls. Moreover, officials are expected to visit customers regularly to find out what they like and dislike about Motorola's overall performance.

Information gathered by officials is supplemented by customer surveys, complaint hotlines, field audits, and other data. Acting on that information is key to the company's plan to reach its goal of virtual perfection by 1992, explains Chairman Robert W. Galvin. If that sounds like an unattainable hope, consider that the maker of paging, semiconductor, two-way-radio, and other products already has reached two important plateaus.

In 1981, Motorola set out to achieve within five years a tenfold reduction in the level of defects in products, paperwork, and other areas of the business. If, for example, the defect rate for semiconductors was 5,000 per million, Motorola sought to bring the rate down to no more than 500 bad chips per million. When, within two years, segments of the company began reaching the goal of tenfold improvement, officials raised their sights. They called for a hundredfold improvement.

That goal also has been attained, says Jack Germain, senior vice president and director of quality. "Now we are in a program called Six Sigma, which is a statistical term that says any process or procedure will have no more than 3.4 defects per million. That, in most situations, is near perfection. We expect to reach that goal by 1992."

The effects of Motorola's program have been dramatic, says Germain. He sees measurable improvement in all phases of the company, from the handling of accounts to the delivery of products. Customer complaints have declined, and market shares for most products are up at home and abroad, he notes. One measure of success in which Motorola takes special pride is that its U.S.-made electronic pager is outselling its Japanese competitors, even in Japan. **NB**

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Up to two awards may be given annually in each of three categories—manufacturing, service, and small business. Small-business applicants must be independently owned and have no more than 500 full-time employees.

Although created by Congress, the award was conceived and advocated by a private company, the Miami-based Florida Power and Light Company. A consortium of private companies administers and underwrites the program, which is managed by the Commerce Department's National Institute of Standards and Technology, formerly the National Bureau of Standards. Award selections are made by a private-sector Board of Examiners, which reviews and scores written applications and conducts on-site visits. Fees are charged to cover the costs of review. Applications for the 1989 awards will be available soon.

Companies interested in more information may write or call the Malcolm Baldrige National Quality Award, National Institute of Standards and Technology, Gaithersburg, Md. 20899; (301) 975-2036.

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Main Street Revisited

By William Hoffer

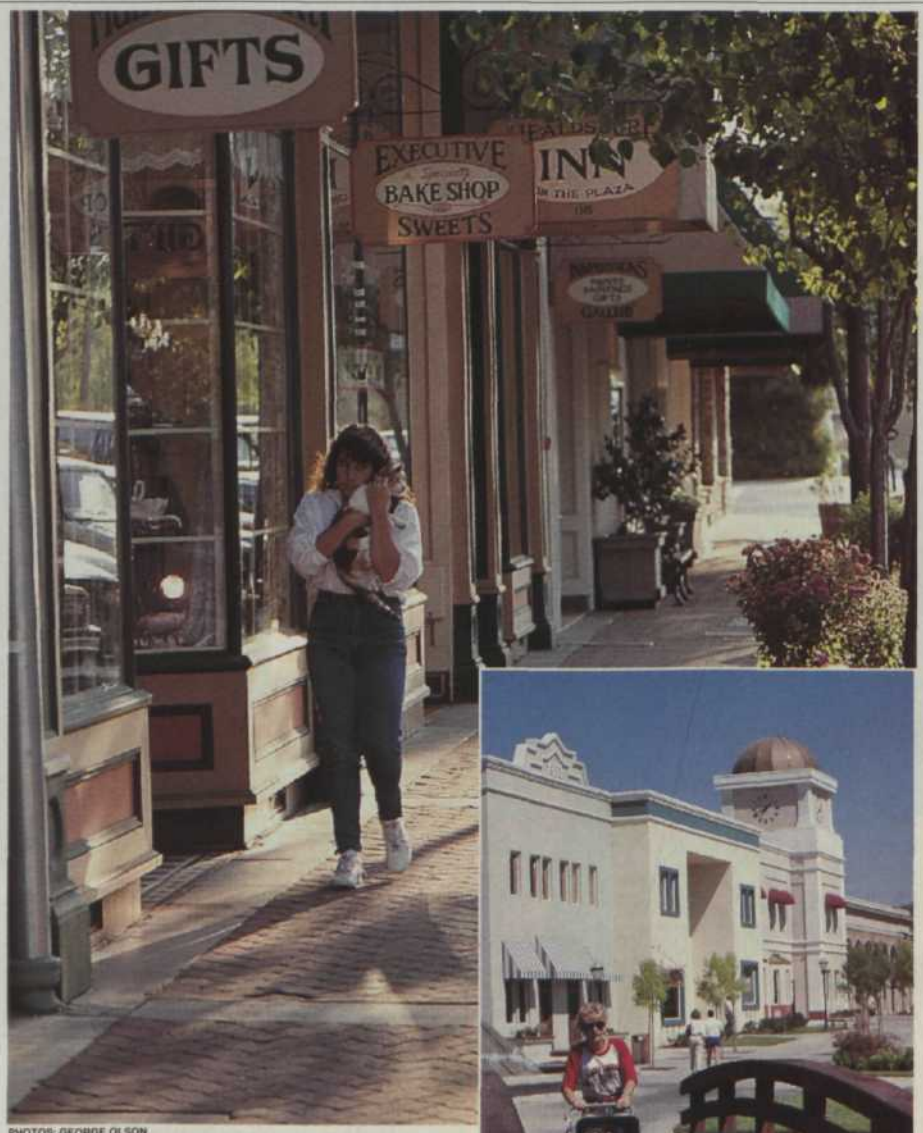
One weekend in 1982, a "SWAT" team of urban-redevelopment experts descended upon Healdsburg, a town of 8,800 residents, located in the center of California's premium wine region. The team's analyses and recommendations for Healdsburg during that four-day visit led to efforts that have reinvigorated the city.

The vacancy rate of buildings in the downtown business district has dropped to 3 percent from 30 percent, and retail sales have tripled. Healdsburg's once-declining inner core has been refurbished and revitalized, its assessed valuation has nearly tripled, and development is continuing.

The urban-renovation experts who spurred those results are among the most prominent in their respective fields. R. Terry Schnadelbach, who served as team chairman, is a New York City landscape architect and ecologist. He coordinated the efforts of William Lamont, Jr., a community-development planner from Boulder, Colo.; Ernie Niemi, an economist from Eugene, Ore., who specializes in cost-benefit analysis of proposed development projects; David Stea, distinguished professor of architecture at the University of Wisconsin/Milwaukee; Milo Thompson, professor of architecture and urban design at the University of Minnesota in Minneapolis; and Raymond Trujillo, a development expert from Albuquerque, N.M.

These men went to Healdsburg to answer a call for help. In Healdsburg, as in a growing number of small U.S. cities and towns, the downtown business district was suffering from what some have called "mall withdrawal." Local officials had created a Redevelopment Agency in 1980 to bring shoppers back to their downtown, but it had accomplished relatively little.

The experts' visit was conducted under the Regional/Urban Design Assistant Teams (R/UDAT) Program of the American Institute of Architects. Healdsburg paid travel expenses for the team, and its members donated their expertise. Since the AIA program began in 1967, more than 500 men and women from more than 30 professional disciplines have donated an estimated $3.5 million worth of services to areas in 40 states with a combined population of 21 million. Their goal is to save a characteristic slice of American culture: Main Street.



PHOTOS: GEORGE OLSON

Reinvigorated downtown Healdsburg, Calif., is proud of its restored architectural features, its regulated signs, its appeal to shoppers, and its new office building, at right.

In a nation with a 200-year heritage of innovation and growth, it is perhaps natural that old business districts have given way to modern merchandising methods. But look at what can be lost to progress. Main Street is a living history of the social and economic forces that created your town. If you let it deteriorate, you may lose that historical record forever. Furthermore, local businesses lose sizable investments when buildings are left idle on local Main Streets.

Another way to view the economic importance of Main Street is to think of the various small businesses as a collective industry. Could your town afford to lose an industry that employs 750 people? That is the typical Main Street

Does your downtown conceal its character? Is it losing vitality—and business? If you think it needs a face-lift, you can get help through tax credits, low-interest loans, and the free advice of urban-redevelopment specialists who want to save your Main Street.

job base in a town of 15,000 people. And it is an industry that attracts other industries. A clean, characteristic, thriving downtown shopping district is one of the most notable signs of a forward-looking local business community.

Frank McIntosh, coordinator of the Georgia Main Street Program, tells the story of a businessman and his wife who were searching for a suitable location for a new facility. Seeing the dilapidated downtown section of one town, the wife remarked, "I wouldn't live in such a place," and the couple drove on.

Look around the downtown district of your town. Chances are that there is much character behind the aluminum facades and the garish signs that have taken over. But does it show? Or does your Main Street need a face-lift?

There may never be a better time to begin—for one very important reason: You can get help. Tax credits and low-interest loans are available, especially for historically significant locales. Low-cost or no-cost plans are already drawn up and ready for adaptation. State and federal agencies as well as private organizations offer information and assistance for every step of the process. Perhaps most important is the fact that customers are ready to return to Main Street.

Consider the fall of Rome—the one in northwest Georgia—and the town's rebirth. In 1834, two lawyers and a cotton planter founded Rome at the point where the Etowak and Oostanaula rivers combine to form the Coosa River. Over the years the downtown area, known as "Between the Rivers," became a commercial center for the local cotton industry.

Rome's first strip shopping center opened in the 1960s and spawned an economic exodus from downtown. When River Bend Mall opened in 1975, both of the town's major department stores left downtown to move into the new facility.

Rome was not rebuilt in a day. City officials hired consultants, but their recommendations were too costly. Progress began only when the city and the local merchants' association agreed to split the cost of a $30,000-a-year downtown manager, Janet Hackett. Under her leadership, Rome flourished. Five downtown blocks are now on the National Register of Historic Places, qualifying dozens of businesses for tax credits. Since 1982, a total of $8.2 million has been invested in downtown structures, more than half of that financed by low-interest loans arranged through the Downtown Development Authority. Property values are up 29 percent. The improvements have generated $80,000 in new taxes for the city.

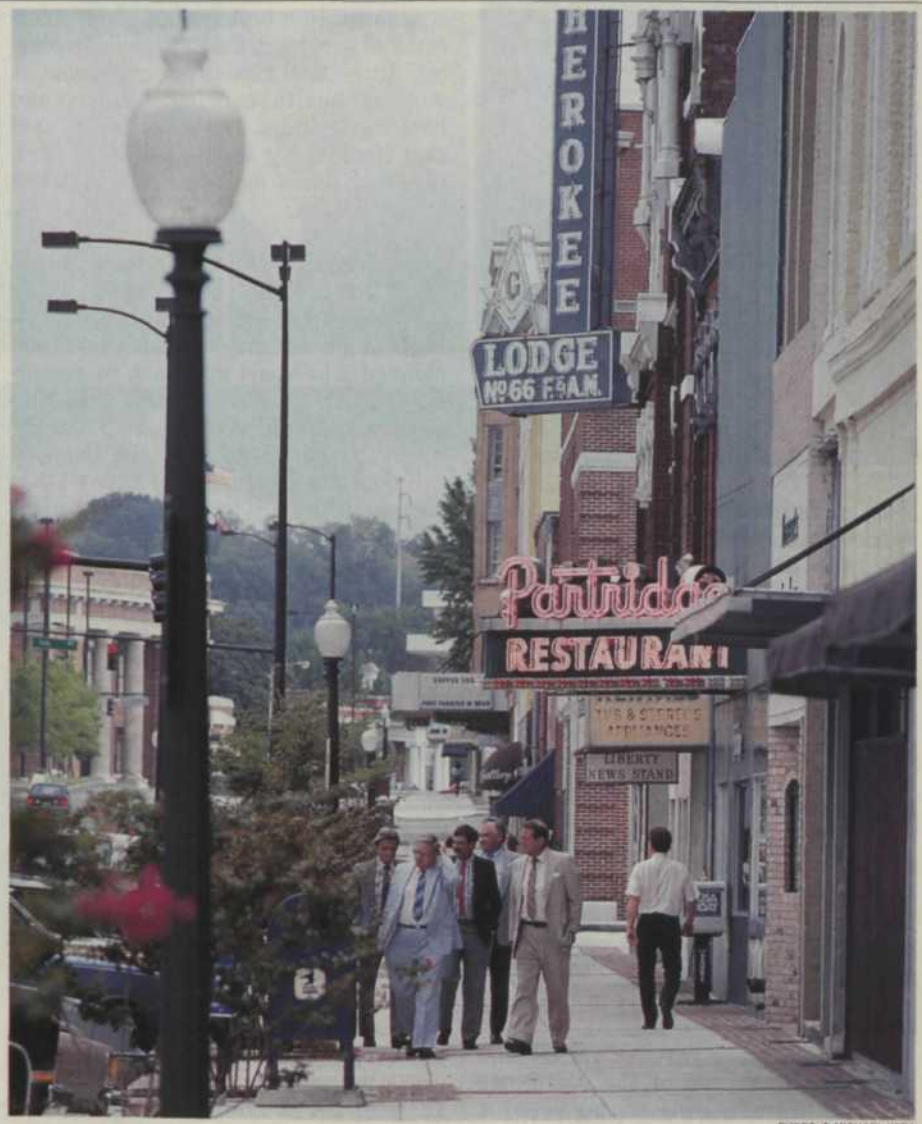


PHOTO: T. MICHAEL KEZA

To reverse the economic exodus from its downtown, Rome, Ga., had five blocks put on the National Register of Historic Places, qualifying many firms for tax credits. Investment in buildings since 1982 totals $8.2 million, and tax revenues are up by $80,000.

Can you follow the same road that led to Rome's revival? The first step is to get some low-cost advice, which is available from R/UDAT. "We send in a team of 8 to 10 top pros," says Bruce M. Kriviskey, director of the R/UDAT program. "There are planners, developers, landscape architects, economists, sociologists, lawyers, and financial experts. Their travel expenses are paid by the host community, but our guys donate

Main Street Revisited



PHOTOS: GEORGE OLSON

T-shirts tell the pride and spirit of refurbished Healdsburg, a place that, like those other towns, attracts tourists.

their time." Initial contact is made during a four-day visit that runs from Thursday through Sunday. Team members agree in advance *not* to accept commissions resulting from their recommendations.

In Healdsburg, the R/UDAT team found City Hall at its disposal. Teenage volunteers stood ready to research facts and figures. The police chief cooked breakfast. Townspeople stopped by with snacks.

Local leaders had called in the team because they were frustrated. A decaying billboard on six acres of vacant land along the west side of the downtown plaza had long displayed an overdue promise: "Commercial Development Coming Soon." But various plans had foundered. Businesses were caught in a deadly cycle of declining property values, reduced occupancy rates, and ever-dwindling traffic. The question was whether Healdsburg could bring pride—and customers—back to Main Street.

"The R/UDAT visit was very stimulating," says Kurt Hahn, deputy executive director of Healdsburg's Redevelopment Agency.

"It forced fast decisions, a process that we in government are not particularly used to. Camping out in a conference room—not just going along at our own pace—was very beneficial. We have replicated that process many times since."

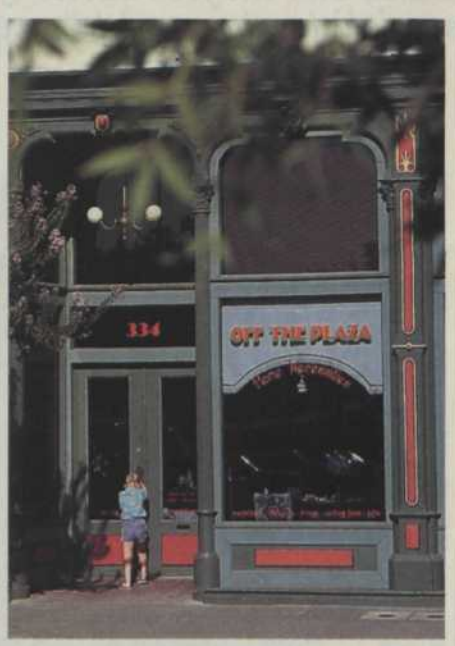
Because geography virtually barred the city from expanding, the R/UDAT team recommended that Healdsburg remain small. The town was advised to concentrate on building small commercial and service firms to provide groceries, drugs, and general merchandise as well as health care, insurance, and banking services. The experts also said that Healdsburg should not try to compete with a new mall down the highway in Santa Rosa.

Since Healdsburg is a natural stop for tourists traveling a major highway through California's wine country, R/UDAT recommended a two-part approach to capturing outside capital. Motels, gas stations, and fast-food outlets had already begun to spring up near the freeway exit, and the team strongly advised that such growth be restricted to that area. This would allow the downtown area to concentrate upon another type of tourist—the one attracted by the three wineries located in the city and the dozens more throughout the surrounding countryside.

The committee recommended that the vacant six acres on the west side of the plaza become the site of a "first class" hotel-and-restaurant complex, and the team advised that other such facilities be prohibited elsewhere. It further advised the adoption and enforcement of design guidelines to preserve the character of the area.

The urban redevelopers' recommendations resulted in a new street pattern for Healdsburg, the placement of parking facilities on the outskirts of the downtown circle, and the opening of the plaza to pedestrians, enhancing its function as a community gathering place.

In subsequent years, Healdsburg implemented what Hahn calls "the more practical aspects of the recommendations." One of the first tasks was to persuade the developers of the proposed Vineyard Plaza Shopping Center to re-site its project, from outside the town to a new location only two blocks from the central plaza. The necessary encouragement came from $5.2 million in Redevelopment Agency Certificates of Participation, guaranteed by Safeway Stores, Inc., of Oakland, Calif.; $1 million of developer equity; $1 million invested by Thrifty Drug; a $1.3 million loan from the city to the developer; and $700,000 of city investments



Healdsburg was advised to concentrate on small service and commercial firms such as this home-necessities shop.

in off-site improvements. For its participation, the city receives 20 percent of rental income and resale appreciation as well as full interest on the loan.

With this visible evidence that business was committed to the downtown area, Healdsburg set to work vigorously. Major face-lifting projects began throughout the plaza, restoring original architectural features and replacing signs to conform to new design regulations. Utility lines were buried, streets were repaved, and period lighting was installed in the common areas. A major north-south thoroughfare is 80 percent complete.

And what about the vacant six blocks and the aging sign promising commercial growth? The town bought the land, took down the sign, provided two square blocks of fresh downtown parking, negotiated an agreement with San Jose builder Barry Swenson to develop a commercial office project, and began soliciting an owner or tenant for the major hotel recommended by R/UDAT.

"That weekend did a great deal to build enthusiasm for change and to bring together diverse viewpoints," Hahn says. The work is not finished, but six years after the "SWAT" team's visit, $93 million in new construction has been completed. Net assessed valuation has grown from $133 million to $331 million. Retail sales volume is

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growing at the fastest rate of any locality in Sonoma County.

Success stories like Rome and Healdsburg are now being told across the land, thanks largely to a coalition of business and government officials. In 1980 the National Trust for Historic Preservation established the National Main Street Center to assist localities in finding effective, affordable solutions to the problems of deteriorating central commercial districts. In seven years it has helped local business people revitalize the downtown commercial districts of more than 350 small and midsized U.S. towns.

This encompasses far more than construction work. Improving local economic management, strengthening public participation in community affairs, and making downtown an enjoyable place to visit are as critical as rehabilitating buildings, recruiting new businesses, and expanding parking facilities.

The short-term goal is to produce visible results that enhance the quality of the downtown commercial district, but the long-term goal is to foster cooperation among merchants, bankers, public officials, the chamber of commerce, and civic groups so that the refurbished Main Street will remain vital over the years.

In its first three years, the National Main Street Center concentrated on demonstration projects in 30 small towns and cities in six states. NMSC staffers met with local leaders to assess needs and capabilities. In each town they helped to organize an interdisciplinary team of bankers, retailers, designers, advertising executives, small-business specialists, parking experts, real-estate developers, and financial analysts.

The efforts resulted in nearly 600 individual rehabilitation projects in those towns, representing an investment of nearly $64 million. All told, 1,051 businesses were started in these renovated areas.

Similar stories can be found from state to state. In Colorado, shortage of capital was a chronic problem. But the Colorado Main Street Program, working with civic and business groups, helped convince the state legislature to authorize $150 million in bonds to finance small-business development. It also pioneered the development of revolving loan funds to finance local projects. As a result, the five Colorado demonstration towns have seen 310 downtown businesses open this decade.



PHOTO: GEORGE OLSON

Lois Tema has breakfast on the front porch of Healdsburg's Inn on the Plaza. The city's downtown renewal made the plaza more inviting to visitors.

The Massachusetts Main Street Center, in addition to providing technical assistance, supplied each of five selected communities with $4,500 in seed money to underwrite the cost of local promotions that returned the investment many times over.

In North Carolina, the state Main Street Center decided to emphasize partnerships between small-business people and bankers, and it found a willing partner in North Carolina National Bank, which provided not only funding but also technical assistance to localities. In Selby, population 17,000, business leaders pioneered the use of a tax-exempt $1 million commercial loan pool that is partly responsible for the 58 new businesses that have opened in the downtown area since 1981; the program is now a statewide model.

In Texas, a consortium of 19 state agencies meets each February to discuss the coordination of that state's Main Street Program, which now has ongoing projects in 19 towns. The state's first five demonstration projects resulted in the opening of 155 new downtown businesses, creating 380 jobs.

Experience has shown that a local community must commit to a minimum of three years in order to make a Main Street renovation project work, and in order to establish the ongoing support that will keep Main Street vital once it has been restored. This can best be accomplished by a coordinated and committed local steering committee. It is not necessary for a local committee to know what it wants to do, or how to finance it. Rather, the key is a strong sense of togetherness, a determined attitude that Main Street must and will be revitalized.

Though presumably any local business person could renovate one downtown store, the community approach has obvious advantages. An individual shop owner is more likely to participate if all or most other shop owners become involved. In many towns, considerable thought must be given to the preservation of history. Written standards and guidelines are essential if the finished project is to retain an essential character. Planning should be coordinated before individual plans are drawn and construction contracts negotiated. Historians, building inspectors, and local residents must have as strong a voice as architects and engineers.

For more information about public and private Main Street rehabilitation projects, contact the National Main Street Center, National Trust for Historic Preservation, 1785 Massachusetts Avenue, N.W., Washington, D.C. 20036; (202) 673-4219. The National Center offers various types of assistance, such as publications, slide shows, video cassettes, computer software, seminars, and personal consultations. To get started, community leaders may wish to buy a copy of *Revitalizing Downtown*, a 115-page looseleaf handbook outlining a complete methodology. It costs $35.

Another source of information is the Regional/Urban Design Assistance Team Program of the American Institute of Architects, 1735 New York Avenue, N.W., Washington, D.C. 20006; (202) 626-7452. AIA's *Urban Design in Action*, documenting the achievements of R/UDAT, is available for $25, plus $3 for shipping.

When you begin, however, you should not expect miracles overnight. Whatever the current state of your Main Street, it probably is the result of decades of change that cannot be reversed quickly. If you resolve to revamp Main Street, you must dig in for the long haul. "Don't try this unless you have a long-term perspective," says Kurt Hahn, in Healdsburg. "It takes patience and persistence." NB

Egypt



Egypt is a land that fully awakens at night, whether you are in its vast deserts or in its sprawling cities such as Cairo. Pictured below is the 6th of October Bridge, which connects Cairo with Gezira Island in the Nile River.

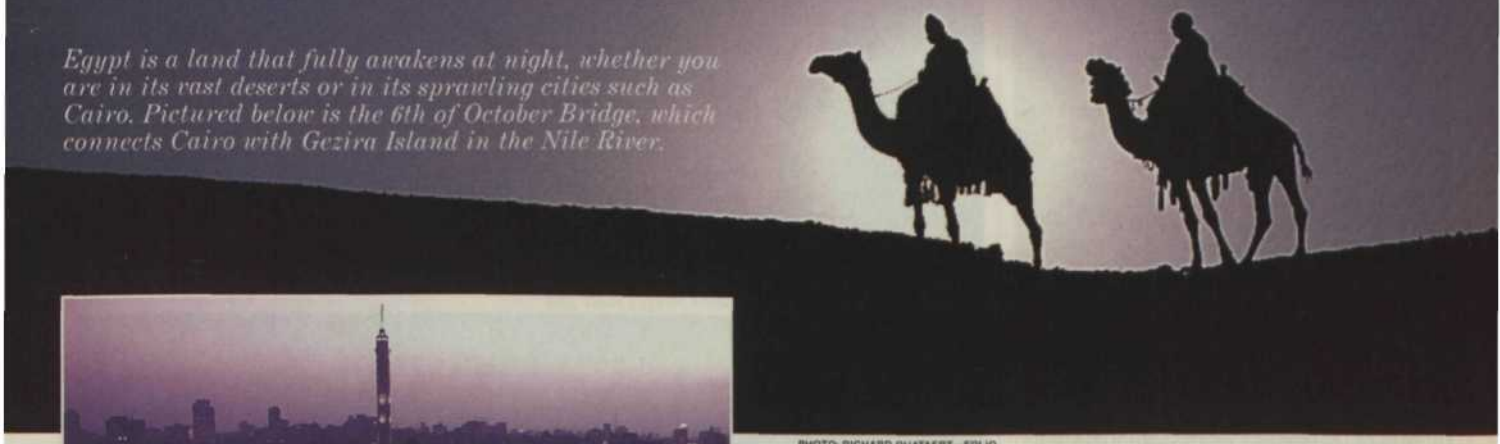


PHOTO: RICHARD QUATAERT—FOLIO



PHOTO: PAUL HENNING—UNIPHOTO

By Mohamed Arafa

In the past two years, Egypt has managed to overcome economic difficulties, defying those who had predicted gloom. The picture of the future is even brighter than that predicted by the most optimistic forecasters.

A report by the Intelligence Unit of the *Economist* foresees Egypt as the Arab world's fastest-growing market over the next five years. The report predicts that while Saudi Arabia will still be the biggest Arab market in 1992, its relative importance will have declined to make way for Egypt.

Many observers are optimistic about Egypt's chances of reaching an agreement with the International Monetary Fund that would allow a rescheduling of part of its large foreign debt. There are some positive signs that Egypt will be able to satisfy some of the IMF's conditions. It has started already to implement needed economic reforms in exchange for financial support.

A solid step has been taken toward unifying Egypt's several rates of exchange. A new commercial rate was established for many transactions, including tourism and the financing of most private-sector imports. This rate has fluctuated between 2.20 Egyptian pounds (L.E.) and 2.30 L.E. to the U.S. dollar. This reform process has resulted in a 61 percent surge in hard-currency deposits at the end of the first half of 1988.

Egypt's continuing strategic importance and its strong commitment to peace in the Middle East as well as President Hosni Mubarak's visits to Europe during the third quarter of 1988 should help secure an agreement with major international creditors for a new rescheduling of the country's debt on favorable terms.

Egypt's current five-year development plan (1987/88-1991/92) forecasts an annual growth rate of 5.8 percent. To maintain this rate, Egypt also has implemented strict measures to bring its budget deficit under control. The 1987/88 budget deficit was projected at $341 million (U.S.).

The government of Prime Minister Atef Sidki has shown fiscal responsibility in order to reduce the deficit and bring under control the growth in the money supply, which reached 17 percent in 1987. It is hoped this fiscal responsibility will check the depreciation of the Egyptian pound, which has been losing about 20 to 25 percent of its value against foreign currencies each year.

Central Bank of Egypt has been trying to put a clamp on credit as part of the government's long and hard endeavors to bring inflation under control. In 1988, the government instructed banks to limit, to 2.5 percent, increases in lending compared with their 1987 portfolios. Meanwhile banks have been required to exchange 3 percent of their foreign currency for Egyptian pounds from the Central Bank. This was in addition to the requirement that banks deposit 15 percent of their hard-currency deposits at the Central Bank. Another measure to limit credit in order to control inflation has been the requirement that letters of credit be 100 percent cash-covered.

The 1987/88 budget envisioned expenditure of $10.57 billion (U.S.), a 5.8 percent increase over the 1986/87 figure. This in-

Mohamed Arafa is an American-educated assistant professor of communication theory and persuasion at Cairo University and the American University in Cairo. He also is a research and advertising consultant for the Al-Ahram *newspaper.*

E G Y P T



crease is attributable primarily to pay raises for state employees, to compensate for inflation. A recently published report by the Ministry of Planning claims that Egypt was able to reduce its fiscal deficit from 13 percent of expenditure in 1986/87 to just 11 percent in 1987/88.

Since President Mubarak came to power in 1981, development has been the focus of the government's attention.

According to Dr. Mohie El Din El Ghareib, head of the General Authority for Investment and Free Zones, Egypt has approved investment, including local investment in projects in which there is a foreign partner, of 7 billion L.E. About 72 percent of these projects are now in operation.

Egyptian investors have provided about 64 percent of the capital of these investments, and Arab investors accounted for about 18 percent. (The percentage of Arab investment is expected to rise following the restoration of relations between Egypt and the Arab world.) Eighteen percent came mainly from the U.S. and Europe. American companies have been involved in 37 joint ventures, investing a total of $310 million. This is in addition to investments in the oil industry, which account for most of the foreign investments in Egypt.

The 14 new satellite cities and industrial areas that the government is building in the desert—for example, The Tenth of Ramadan, halfway between Cairo and the Suez Canal, and Sadat City, 50 miles from Cairo on the desert road to Alexandria—are said to be attractive to domestic and foreign investors.

After the decline that took place during the first half of the 1980s, Egypt's three principal sources of foreign revenues—they are remittances from Egyptians working abroad, oil exports, and Suez Canal tolls—have shown great signs of improvement in the second half of the decade. Starting in mid-1987, Egyptian General Petroleum Corporation resumed issuing new production-concession agreements for oil and gas fields. This resumption coincided with the strengthening of the international oil market and will encourage a pickup in exploration activity.

More attention is being paid to encouraging exploration and production of natural gas on a commercial basis. Egypt's natural-gas reserves are estimated at about 11 trillion cubic feet.

Industry accounts for about 13 percent of Egypt's gross national product, as 75 percent of production originates from the public sector. Some plants of this sector need modernization, but funds are not available. That is why the government is looking to the private sector to help revitalize industry.

Water is the lifeblood of Egypt. Directly below is the Nile River, near Luxor, an ancient Egyptian capital and site of the ruins of the country's most gigantic monuments, statues, and temples. At bottom is the Suez Canal in Northeast Egypt, which permits passage between the Red Sea and the Mediterranean Sea. At right is an oil-drilling platform in the Gulf of Suez.

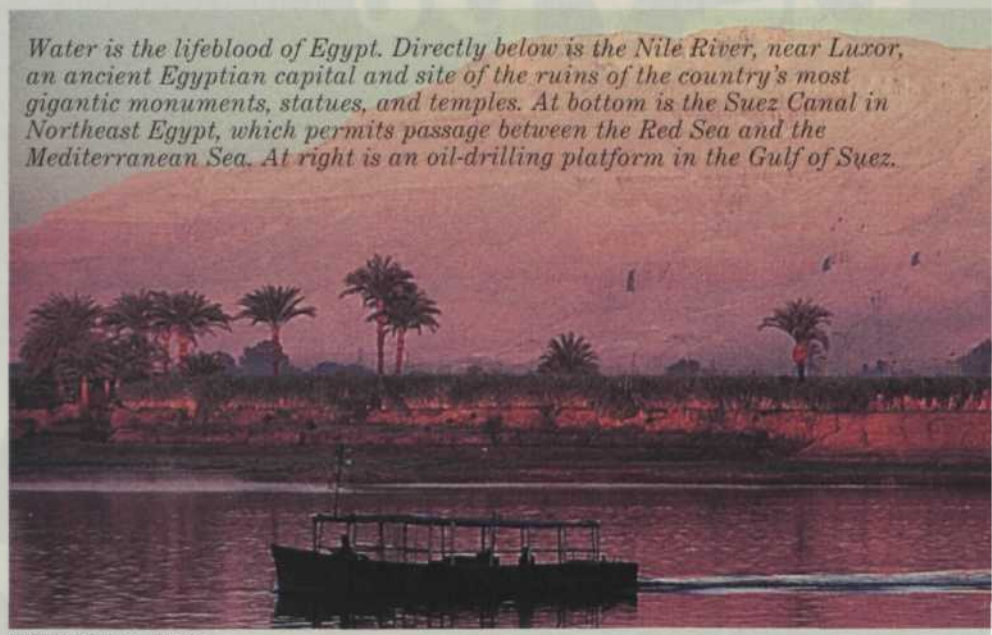


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In the present five-year plan, it is projected that private enterprises should be responsible for an annual growth rate of 7.2 percent. Private-sector industrial investment has increased already from 17 percent in the first five-year plan to 38 percent in the second year of the second five-year plan.

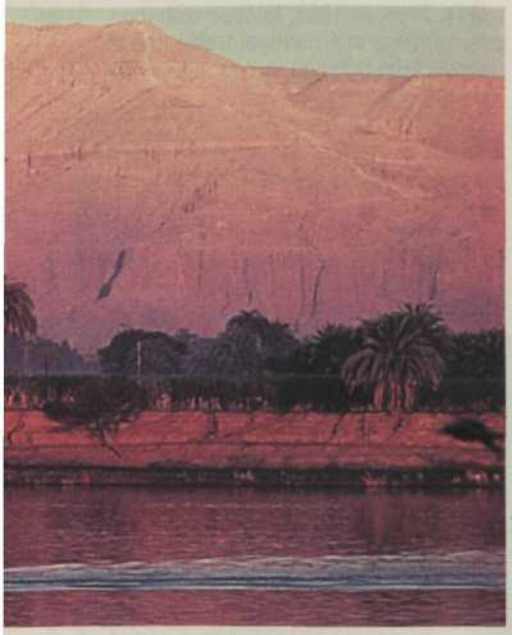
Private consumer industries such as clothing and food processing have expanded so fast that discussion of privatization of the less-successful public sector has been inevitable. President Mubarak, however, has ruled out radical moves to sell off state enterprises while encouraging the private sector to contribute more to the revitalization of Egyptian industry.

Private-sector investing, mainly in small and midsized projects, has shown dynamic growth. During the second year of the present five-year plan, this sector accounted for around $1.7 billion (U.S.), which represented 33.1 percent of the country's total investment.

Certain industries, such as the carpet industry, are making great strides. When President Mubarak cut the ribbon at the opening of the new Opera House last October, he could not help but notice the quality and good taste of the carpets that decorated the halls of what he termed a "cultural institution."

Mubarak asked the Japanese ambassador to Egypt, whose country donated the building in appreciation of Egypt's strong commitment to peace and development in the Middle East, about the handmade carpets that lay glittering before the eyes of the attending dignitaries. An Egyptian official stepped in and said proudly, "This is Egyptian."

That came as no surprise. Economic observers and Western diplomats predict



that by the year 2000, Egyptian handmade wool and silk carpets, as well as flat-woven rugs, will be two of the hottest items in the international home-furnishing market.

Last year witnessed the complete recovery of Egypt's tourism industry from the disastrous fall of 1986. The occupancy rate at Egypt's 350 hotels was 98 percent. Fouad Sultan, minister of tourism, gets more popular with every release of new figures about tourism in Egypt. Latest figures showed that the number of tourists in 1988 rose by 35 percent compared with 1987. More important was the 180 percent increase of tourist nights during 1988. Even more heartening is the fact that Egypt has regained the American tourist market, which provides it with about 200,000 visitors a year.

The unified rate of exchange introduced in 1987 killed the foreign-currency black market. This translated into many more tourist dollars being lodged with the banks instead of finding their way to the black-market dealers.

Sultan, a banker and free-enterprise-oriented businessman himself, has ambitious plans to develop tourism in Egypt. He invites foreign investors to invest, at least, in five development areas. These are the South Sinai, North Sinai, Red Sea Coast, Western Desert, and Northwest Coast.

He has repeatedly been quoted as saying that Egypt offers, apart from cultural tourism, the "four S's" of recreative tourism: sand, sea, sun, and shopping.

A recent report ranked tourism over oil revenues as the second-largest source of hard currency in Egypt, just behind remittances from Egyptians working abroad.

The summer of 1988 brought many pieces of good news.

A good rainy season in central Africa raised the level of waters in Lake Nasser. An arbitrator of an international court settled in Egypt's favor the dispute over Taba,



PHOTO: JIM OLIVE—UNIPHOTO

a tourism spot on the border between Egypt and Israel.

Additionally, the best news to Egyptians came when their favorite novelist, Nageeb Mahfouz, won the 1988 Nobel Prize in literature, the second Egyptian in less than a decade to win a Nobel Prize. President Sadat had won the Nobel Peace Prize in 1979 for his historic visit to Jerusalem.

This is the picture of Egypt's 1988, and 1989 promises even more success for the pharaohs of the 20th century.

National Bank Of Egypt: Where The Future Lives

The National Bank of Egypt has a distinguished history of service stretching back some 90 years. Now, the NBE ranks among the world's top 500 banks.

It has been no easy task for the NBE to maintain its leading position in a climate that is unfavorable for the banking business—economic uncertainty at the national and international levels. Nevertheless, the NBE has been able to do this, thanks to untiring efforts that earned it the National Production Cup for the year 1987.

The NBE has more than 1,300 correspondents worldwide and over 230 domestic branches in addition to its City and West End branches, in London. NBE banking services are backed by the most modern technology, which allows the bank to provide customers with a wide range of financial services and information.

Just in case you wonder how large an institution the NBE really is, the following figures will shed some light on this:

- Total assets exceed 14.6 billion Egyptian pounds (L.E.).
- The deposits base exceeds 9.6 billion L.E.
- NBE investments totaled some 1.4 billion L.E. of a total of 2.3 billion L.E. for all equity participants in 62 projects in different sectors of the Egyptian economy.

E G Y P T



EgyptAir: Pioneer In The Middle East

Horus was god of the sky in ancient Egypt. His body was sometimes that of a bird and sometimes that of a man, but his head was always that of a falcon. His right eye was the sun, his left eye was the moon, and the great pharaohs were assumed to be his incarnation on earth.

Horus was the son of Osiris, god of the underworld, and Isis, queen of the gods and mother of the earth. When Seth, a disruptive force, murdered Osiris, Horus slew him in battle, but only after Horus' left eye had been injured. The symbol of the eye became a powerful amulet for warding off evil.

Horus' victory brought about the unification of upper and lower Egypt, and a period of peace and prosperity ensued. Many areas adopted Horus as their principal god.

Now, Horus is EgyptAir's logo.

EgyptAir, the pioneer national Egyptian air carrier, was the first airline in the Middle East and the seventh worldwide. It also was one of the founding members of the International Air Transport Association.

The airline was established jointly with the British on May 7, 1932, by leading Egyptian economist Talaat Harb. Its first name was MISR Airwork, and its main objective was to promote the spirit of aviation and air-mindedness among Egyptian youth. Using Gypsy Moth airplanes, the company taught in its flying school the art and science of flight and aeronautical engineering.

For 15 months, MISR Airwork officials worked diligently to establish a service network and market its routes inside the country and throughout the region. In August, 1933, MISR Airwork commenced commercial operations, flying a Sparan Cruiser.

This all-metal aircraft with three piston engines was leased from its British partner, Airwork, Ltd. This plane was returned the same year, when the company purchased two four-seat aircraft, made by De Havilland. In 1935, MISR Airwork added six De Havilland 895s to its fleet. Later that year, the airline took a big step forward when it placed in service four De Havilland 86 Express aircraft, each of which seated 14 passengers.

After World War II, the Egyptian government took over the airline, and its name was changed to MISR Airlines. In 1946, the airlines' name was changed again, to MISRAir, and 10 Beechcraft D1855 aircraft were purchased—the first American planes in the fleet.

While the airline has expanded steadily throughout its life, its big leap forward came after World War II, when air travel gained rapid and widespread acceptance. In 1949, MISRAir bought 10 Vickers Vikings, and the following year it put in service a French aircraft, the Languedoc.

After the July 23 revolution in 1952, the Egyptian government made considerably greater resources available to the airline, enabling it to upgrade its aircraft, equipment, workshops, and training facilities to the standards of other international airlines.

MISRAir became one of the airlines to fly the turboprop Vickers Viscount, in 1956. In 1958, it purchased five McDonnell Douglas DC-3 Dakotas to serve domestic routes and changed its name to United Arab Airlines.

In 1960, UAA introduced a fleet of Comet 4-C jets, enabling it to extend its network to more capital cities and large towns. Then, in 1968, to cope with the ever-growing international traffic and to operate longer-range routes, UAA introduced the Boeing 707-320C.

This new aircraft enabled UAA to fly to all parts of the Middle East and major cities in Europe, Asia, Africa, and the Far East.

The airline changed its name again, in October, 1971, to EgyptAir. Later, as part of a policy of improving and consolidating its domestic and regional service, EgyptAir introduced seven twin-engine, short-haul Boeing 737 aircraft into its fleet.

Throughout the 1970s, EgyptAir faced difficult economic and social conditions prevailing in the country and in all of the Third World. It struggled with the challenge of financing renovation of its fleet, which consisted mostly of obsolete aircraft. It sought to regain the glamour it enjoyed in its early days and shed criticism by the media.

In the early 1980s, EgyptAir pressed forward with its ambitious plan to update its fleet, which by then consisted of seven Boeing 707s and seven Boeing 737s.



EgyptAir already owns two Boeing 747/300 freighter/passenger combination jets and leases another. Soon, it will add another two of these jumbo jets to its revitalized fleet.

Between September, 1980, and the start of 1981, EgyptAir purchased eight Airbus 320 aircraft, and it bought five more Airbuses during 1982-83. In 1984, the airline bought three Boeing 767 extended-range jets.

Within seven years—not more—and depending only on self-financing, EgyptAir had become an airline consisting of these aircraft:

- Airbus 320—eight.
- Boeing 767—three.
- Fokker 27—three.
- Boeing 737—seven.
- Boeing 707—three.
- Boeing 707 freighters—three.
- Boeing 747/300 freighter/passenger combination—two.
- Boeing 747 (leased)—one.

These acquisitions have allowed EgyptAir to stand up to international competition and regain the glamour of its name.

During the coming years, EgyptAir will continue updating its fleet with aircraft that last longer, carry more passengers, and are more economical to operate.

More specifically, the airline hopes to replace soon its Fokkers and Boeing 737s with aircraft that carry about 150 passengers and more cargo. It also hopes to replace its Airbus 320s with 600 series airplanes manufactured by Airbus Industries, which carry many more passengers. Finally, in June, EgyptAir will add to its fleet two additional Boeing 747/300 jumbo jets.

LESSONS OF LEADERSHIP

Brother Act

Jack Miller and his siblings have built Quill Corporation into a nice little $240-million family business.

By Michael Barrier

In 1974, Arnold Miller came home to Chicago, after many years as a certified public accountant in California, to go into business with his two younger brothers, Jack and Harvey. Jack had founded an office-supplies company in 1956, and Harvey had joined him 18 months later. By 1974, their Quill Corporation was a mail-order operation with annual sales around $3.5 million.

"I was very suspect, coming from California," Arnold recalls. "Anybody from California, driving a little sports car, and who didn't like to wear ties. . . ." He need not finish the sentence, because the implication is clear: Such a person might not fit in at Quill.

Last year, Quill—now a $240-million-a-year company, with more than 1,000 employees—expanded for the first time outside the Chicago area. It opened a 180,000-square-foot distribution center in Ontario, Calif., east of Los Angeles. And, again, California's reputation made the two younger Miller brothers uneasy.

"We made our minds up that we weren't going to allow the kooks," Harvey Miller says. "We were not going to acquiesce to the California lifestyle." Of the new warehouse's staff of 40, about a dozen moved west from Illinois. Some of the new hires in California were brought east to Quill's offices and warehouse in suburban Lincolnshire to learn, Harvey says, "why the floors are clean and there are no graffiti on the walls."

The California facility opened in July, and, he says, "there is no difference," in employee attitudes and work habits, between it and headquarters.

Quill is a very Midwestern kind of company, built by people who shun razzle-dazzle and despise sloth and self-indulgence. "We just don't play games," says Harvey Miller. "Everybody in this company knows that if they step out of line, they will be called on it."

After more than 30 years, the Miller family still owns and runs Quill. Jack, 59, is president; Harvey, 56, is secretary—and Arnold, 63, having survived guilt by association, is treasurer.

"We work as a team," Jack Miller says, but he is, he acknowledges, first among equals, as befits the founder of the company. The three brothers work in adjoining offices on the second floor of Quill's administration building, but Jack's is the corner office, with the best view of the landscaped grounds.



PHOTO: RICHARD DERK

Jack Miller started selling office supplies door-to-door to Chicago businesses more than 30 years ago. Now he heads the country's largest mail-order office-supply firm.

"The difficult thing for any entrepreneur to do is to begin to give up responsibilities," he says. "We've had to learn, over a period of years, to let each one do his own job. We basically have followed a policy that says that if all three of us don't agree on something, we don't do it."

Jack Miller runs Quill's marketing, Harvey its operations, and Arnold Miller its finances. Or, as Harvey says, "Jack's responsibility is to get the business in, mine is to get the orders out, and Arnold's is to collect the money and pay the bills."

It is through Jack's marketing efforts that Quill turns its most public face to the world. Quill has 750,000 customers, almost all of them small businesses; most order by phone, some by mail, an increasing number by fax, and a few by computer. Every year Quill sends its customers 60 million pieces of mail, advertising thousands of items—staples, filing cabinets, typewriter ribbons, fax machines, lamps, paper, pens. It fills its bulky semiannual catalogs (384 pages plus inserts in the fall 1988 edition) to overflowing with pictures and type and a substantial number of exclamation points.

The latest catalog reads in places like a textbook—it includes primers on such products as typewriter ribbons and transparent tapes—and that resemblance is, Jack Miller says, intentional: "More and more, we're trying to use our catalogs as educational materials, to teach people about products and really explain the differences. When our catalog goes out, it does a better job of showing the product and explaining the benefits than the [manufacturer's] salesman does."

Quill has published booklets even more openly educational than its catalog; there is, for instance, one called "How To Save Money on Office Supplies." The booklet points out the advantages of buying from Quill—but it is at pains to point out the advantages of buying from competitors like retail stores and warehouse clubs as well.

Such frankness is, Jack Miller says, critical to good customer service: "When you're running a business, there are certain basic things that are true and that work. Being totally honest and open with your customers, and

Brother Act



Arnold, Jack, and Harvey Miller visit with Rosemarie Rugebregt, who fills orders in Quill's 442,000-square-foot headquarters complex at Lincolnshire, Ill.

PHOTO: RICHARD DERK

treating them extremely well, is one."

And, he says, treating customers well must not be a gimmick for getting people in the door, but must be instead simply one aspect of ethical business behavior: "I don't understand how anyone could think of [ethics and customer service] separately."

All three Millers say that a shared commitment to high ethical standards has helped them to work together and overcome normal sibling rivalries. Working with his brothers was, Arnold Miller says, "very hard to get used to," and not simply because Arnold bore the stigmata of 20 years in California. "When I came back," he says, "we tended to look at each other as we knew each other 20 or 25 years before." Jack and Harvey were still his kid brothers: "Jack would say, 'I remember when you . . .'—and I was 15 years old at the time."

But, says Harvey, "our parents gave us a good solid foundation. We never had to be concerned about whether the other guy was pulling his load."

The Millers grew up on Chicago's North Side, where their father's store sold live poultry in the days when Chicago's ethnic stew was still highly flavored; Jack Miller recalls the "Polish women who would want you to collect blood from the ducks, because they made duck's-blood soup."

After graduating from the University of Illinois, Jack Miller worked as a salesman for a few years. Then he went into business for himself, as Quill Office Supply Co. Like many other office-supply dealers, he had no retail store but instead sold to small businesses door-to-door, taking their orders and picking up the supplies from a wholesaler. His "office" was in the poultry store; when customers called Quill's line, "they'd hear chickens in the background."

His first month, Jack sold only $960 worth of office supplies and cleared only $30. But by the next year, when Harvey joined him, Jack had decided, as Harvey recalls, that "the business could afford to pay both of us 90 bucks a week." They divided Chicago, with Jack making sales calls in the south half and Harvey in the north.

Along the way, Quill mailed a few pieces—a postcard at first, then fliers, "just extra things to try to help us get a new account, to help sell merchandise," Jack Miller says. "Pretty soon we found ourselves in, answering the phone, more than we were out selling." By 1963, Quill had become wholly a mail-order company; it issued the first of its big catalogs then.

That year also was the only time that Quill borrowed money to expand its operations. Repaying the bank loan turned out to be arduous, because the company did not grow as fast as the Millers expected. They switched to financing growth out of profits. "We don't like to owe money," Arnold Miller says. "If we made two dollars, at least a dollar, if not more, went back into the business." (Another reason Quill can avoid debt: It has the highly positive cash flow that comes from turning its receivables in 26 days and its inventories 12 to 15 times a year.)

Soon after Arnold joined the company, he recalls, "we decided we wanted to grow rapidly." Quill began sending more catalogs and adding many more customers, and, Arnold says, "we found out we could handle some pretty hefty growth." As the company grew, the brothers educated themselves in all its aspects—Harvey became a computer programmer, for instance—so that they knew what their employees did.

All three brothers have children working in the company, but, Arnold Miller says, Quill has grown so much that the children cannot learn the business the way the brothers did: "They will have to become professional managers if they want to have any management positions in the company." Jack Miller says with considerable bitterness that continued family ownership may be impossible in any event, because estate taxes will be so heavy: "I'm beginning to believe that the government of the U.S. does not want large privately owned businesses to remain private."

So, when the brothers are gone, some of Quill's special character—that of a small, close-knit family firm, magnified many times—will almost certainly go with them. Quill's future owners and managers will probably not be able to speak, as Jack Miller does, of the satisfaction he has enjoyed from spending each working day in the company of his brothers: "The business would have been a lot less fun without them. It would have been a lot lonelier. The burdens would have been a lot heavier." NB

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MANAGING YOUR BUSINESS

When An Employee's Performance Slumps

By James Greiff



PHOTO: BOB DAEMMRICH

Change can motivate employees, says Sam Barshop, left, president and CEO of La Quinta Motor Inns, shown with inn managers Jim and Barbara Buikema.

Every employee, no matter how highly esteemed, has ups and downs.

With good employees, substandard behavior is usually caused by a minor or temporary concern—a disagreement with a colleague, perhaps, or car trouble, or an unexpected expense. The worry soon passes, and all is back to normal.

But sometimes the passage of a few days doesn't help to ease the mind, and the employee's slump continues. The consequences, as seasoned managers know, can affect schedules, employee morale, and even employees' health and safety.

What should be done? Management could ignore the worker, but that doesn't help the employee, other workers, or the company, whose bottom line suffers when it pays a salary for little or no work.

And dismissal, the ultimate sanction, has its own economic costs in finding and training a replacement.

Unfortunately, say managers and business consultants, the technique that stands the best chance of bringing a good worker back to the fold is also one to which most people are naturally averse: counseling. Typically, counseling is a task for specialists, but managers too have a role, at least in the early stages of taking action on a worker's declining performance.

James Greiff is a free-lance writer in St. Petersburg, Fla., who specializes in business issues.

"The most unpleasant thing a manager has to do is counsel someone," says Paul Brown, a workplace consultant and adjunct professor of psychology at the State University of New York. But short counseling sessions in which the manager moves a step at a time are the most constructive ways of dealing with a troubled employee. Brown warns that managers who put off such meetings are likely to have to take stronger action later, such as terminating the worker.

Studies have shown that 10 to 15 adults in every 100 at one time or another develop problems that interfere with their ability to perform effectively at work. The problems may be an addiction to substances such as alcohol or drugs, a behavior such as gambling, an emotional or sexual obsession, or a result of worker alienation.

Worker alienation is a persistent malady that afflicts small businesses as well as large ones. Although a disgruntled or unmotivated worker might appear to be less troublesome to a business than a worker with a substance-abuse problem, that worker may just as surely deprive a company of its competitive edge.

The problem often is rooted in the tendency of managers to think that employees are motivated in the same way the managers are. "That's the No. 1 mistake" that managers make—"to assume that people are like them," says workplace consultant Brown.

Many executives also assume that their ability to manage is based on their technical expertise and training. More important than technical proficiency, experts say, are "people skills."

"Most managers don't look at how to motivate their work force," says Quinn Spitzer, a management consultant with Kepner Trego in Princeton, N.J. The result is poor management, he says, because "management is, by definition, getting work done by other people."

Able workers can slip up also if they're assigned to duties beyond their abilities. Sam E. Barshop, chief executive officer and president of La Quinta Motor Inns, headquartered in San Antonio, says that when workers who have been promoted beyond their capabilities are moved "back to their position prior to promotion, usually they're comfort-

Whether the cause is drugs, alcohol, or alienation, a worker's problems on the job often can be solved with counseling.

able because they could see they were in over their heads."

Barshop says that a slump in worker performance is often attributable to management's failure to stimulate the worker's creativity. "It's pretty apparent when people don't feel challenged," he says. He recommends "constant change, without changing the concept" of the business.

In motivating workers at Action Products International, a consumer marketing company in Ocala, Fla., Judith Kaplan, president and CEO, tries to avoid a "bureaucratic structure that treats everybody the same." She says she attempts to deal with workers as individuals without causing perceptions of preferential treatment. "It's a tight balancing act," she says.

Experts say that most managers are less capable of dealing with a worker whose job performance slumps because of substance abuse. That requires a specialist.

In 1987, in its sixth special report to Congress, the National Institute on Alcohol Abuse and Alcoholism estimated that alcohol abuse cost the country nearly $90 billion in 1980, the year the statistics were gathered. Of that total, businesses absorbed about 60 percent of the cost, or almost $55 billion, in higher health and medical-insurance costs, lost productivity, and absenteeism.

Use of illicit drugs cost the country an additional $47 billion, according to the report, and businesses absorbed about 55 percent, or $26 billion.

Some managers might wonder why they should not simply fire an addicted employee. But an addicted worker, when "clean," can be valuable to a company, says Thom Murgitroyde, director of the Addiction Referral Intervention Education Service, a nonprofit organization in Philadelphia. "Usually, people who have alcohol and drug problems at one time have been outstanding performers."

A supervisor's job "is not to identify that there is a problem, but to document behavior," says Richard Bickerton, a spokesman for ALMACA—the Association of Labor-Management Administrators and Consultants on Alcoholism, in Arlington, Va. "The supervisor doesn't accuse [the worker] of anything, he just documents the case. Then he offers [the worker] a choice." The choice is to get help or be prepared to leave.



PHOTO: BRUCE BORICH

Workers are treated as individuals at Action Products, in Ocala, Fla., says President Judith Kaplan, center, meeting with Rich Johnson and other employees.

Some major companies have in-house employee-assistance programs (EAPs) either to treat workers or to provide references for agencies that provide rehabilitation. Because establishing such a program can be costly for a small firm, local business groups sometimes help companies form consortiums. This way, half a dozen or more companies can join together and get a lower rate. Otherwise smaller companies must resort to outside agencies.

Where can you turn for help? The Yellow Pages usually list consultants, agencies, and referral services. Another source is the *EAP Consultants Directory*, recently issued by ALMACA, 1800 N. Kent Street, Suite 907, Arlington, Va. 22209; (703) 522-6272. It is $10 for members, $15 for nonmembers.

A typical employee-assistance program, says consultant Richard Hellan of St. Louis, should provide the following:

- A clearly stated corporate policy that describes how the company deals with employees' outside troubles affecting their work.
- A notice that states a program is available and tells how it operates.
- A short-term counseling service available at off-hours at no additional charge to the company or employee. A 24-hour crisis service should also be included.
- A system that allows employees who use the service to evaluate it confidentially.
- A demographic report to the company on who uses the service.

Hellan estimates that such a program would cost a company with 100 employees about $7,000 a year. The company's cost for such a program would drop, however, to about $3,000 to $4,000 a year if it were purchased through a consortium.

Costs can run about $30 per year per employee for those companies that have more than a couple of hundred workers.

Paying to rehabilitate an addicted worker may cost up front, Bickerton says, but it can have payoffs: "Management wins because they've restored a productive employee. Labor wins because it preserves the work force. But the biggest winner of all is the person treated." NB

The Coming Era Of Tiny Technology

By William Hoffer

Research engineer George A. Hazelrigg has seen the future of technological revolution, and he keeps it in a green plaid box that once held a roll of transparent tape. The box now contains a barely visible gray speck, but in fact the speck is much more. "That is a rotor, made at MIT," Hazelrigg explains, and moreover it's "a fairly large one, because we don't have to work too small as of yet."

The rotor measures 200 microns across—about twice the thickness of a human hair—and it is an example of what many say will be achieved in the approaching era of micromachine technology. Hazelrigg is acting deputy director of the Division of Engineering Science in Electrical, Communications and Systems Engineering of the National Science Foundation, in Washington, and he finds the prospect of micromachines fascinating. "We *are* talking in terms of a revolution," he says. "In my mind there is no doubt that that is the case. People are walking around with bug eyes, thinking about what the future holds."

Though researchers haven't solved all the problems in developing processes for manufacturing micromachines, many are optimistic that perhaps by the turn of the century such machines will have an untold number of practical, cost-saving uses. Some are foreseeable now; others would become evident after micromachine technology becomes commonplace.

Imagine a machine no bigger than a fly speck, complete with rotors, gears, drive shafts, pulleys, switches, sensors, actuators, and other mechanical components—all driven by an internal microcomputer. The possible uses of such devices range from space exploration to surgery to manufacturing.

One expert who speculates enthusiastically is Anita M. Flynn of MIT's Artificial Intelligence Laboratory. She recently told a conference of engineers, "What will appear will be cheap, mass-produced, slimmed-down, integrated robots that need no maintenance, no spare parts and no special care."

These microassemblies—these robots of the future—would be so tiny that Flynn calls them "gnat robots." She says that if we can envision "robots with sensors, computers, actuators and power supplies all on one chip, our concept of robotics becomes completely different. . . . It flies, it crawls or swims. . . . It has microsensors on board which allow it to see, smell, or feel. What could we do with such machines?"



PHOTO: KEN KERBS—BLACK STAR

Engineer Ken Orlowsky, a member of an AT&T team working on micromachine technology, inspects a silicon wafer from which tiny machines are made.

Flynn detailed a few possibilities:

- A crawling robot could check out O-rings or other crucial assemblies on space shuttles, possibly preventing tragedies like the explosion of Challenger. Space explorers could use robots to gather data before venturing into unknown regions.
- If a break occurred in an underground electrical circuit, a gnat robot could hop from one leg of the circuit to the next, measuring the conductivity at each point. When it located the break, it could extend itself across the fault and reestablish the connection. "It can just stay there forever," says Flynn, "as an autonomous piece of wire."
- Airborne gnat robots could fly over a farmer's field, use moisture or infrared sensors to determine which sections need water, then swoop down to activate irrigation systems.
- Sentry robots could detect security breaches in stores or offices; "scrubbing bubble" robots could munch away barnacles on a ship.

"Gnat robots will come to be regarded like ballpoint pens," Flynn said. "They'll be cheap enough that we just toss them out and buy new ones when the old ones break."

Micromachines now exist only in the scientific eye, but a few prototype components have been made, leading some to conclude that researchers are on the brink of a breakthrough that could transform—and shrink—the entire mechanical world.

The key concept is that the manufacturing techniques of the semiconductor industry can be applied to the production of machines. In other words, the electronic revolution of the 1970s and 1980s can be copied by a micromechanical revolution of the 1990s and beyond.

The basic technology of producing a microelectronic circuit is similar to the development of a photographic plate. Technicians begin with a base, called a substrate, usually a silicon crystal. Upon this substrate they deposit one or more layers of working material, usually silicon, that is sensitive to an electromagnetic radiation, such as X-rays or electron beams. The silicon is covered with a mask, or pattern, and it is irradiated. Then it is treated chemically to etch away unwanted material, leaving the desired pattern of silicon.

The process has been highly refined through experience, enabling technicians to produce multiple-layered assemblies in intricate patterns. Vast libraries of software aid in the mass production of integrated circuits constructed to precise specifications. The results have been revolutionary. Virtually every electronic product has become more sophisticated and efficient, yet smaller and less costly.

Can the same results be achieved with machines? Yes, say a growing number of researchers. They say that micromechanics, using the same processes that create electronic circuits, can etch out basic mechanical parts

By the turn of the century, micromachines could be used for a host of practical tasks—from surgery to space exploration to scraping barnacles.

that are capable of motion relative to one another. The big difference is that a machine is not a flat structure, as is an electronic circuit.

The first step is to remove a completed micromechanical part from the manufacturing base. A method to do this was devised by Mehran Mehregany, an MIT graduate student and a consultant to the Robotics Systems Research Department of AT&T Bell Laboratories in Holmdel, N.J. Mehregany's method calls for turning over the assembly and etching away the substrate from behind. Using this process, a team of AT&T engineers—Bill Trimmer, Ken Gabriel, Ken Orlowsky, and Nick Ciamta—produced a prototype, free-standing gear that was 300 microns in diameter and 40 microns thick. "We made a gear because it is a structure people know," says Trimmer.

The group then advanced to the next logical step of tying together two or more components into a mechanical system. They soon realized, Trimmer says, that "hand assembly is a problem." To solve this problem, several laboratories have started using "sacrificial" layers.

Richard S. Muller and his colleagues at the Berkeley Sensor and Actuator Center of the University of California built a pin joint, composed of a hub and a rotating member. The assembly was constructed in layers, separated by sacrificial layers of silicon dioxide. When the structure was complete, the silicon dioxide was etched away, freeing the rotating member.

After they achieved that success, they built more elaborate devices, including an entire machine—a system of gears, slides, and a spring made of polysilicon—that is smaller than the width of a human hair.

"It doesn't make much sense to build a micromachine if you have to put a big motor on the front of it," says AT&T's Gabriel. "Right now we're tackling the basic problem of the power source. At the moment, electrostatic power appears to be the cleanest and most advantageous, but hydraulic and pneumatic power sources are also possible, and the choice, in the end, may depend a lot upon the specific application."

Early theoretical work on the potential of micromotors has been conducted

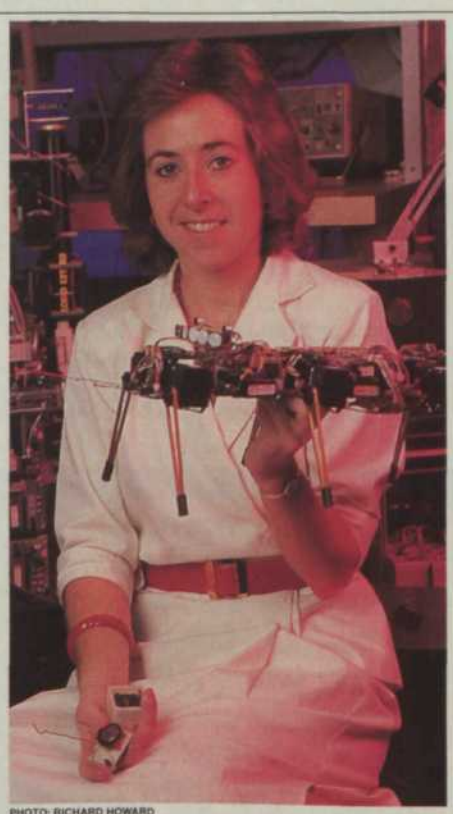


PHOTO: RICHARD HOWARD

Anita Flynn of MIT, holding a walker robot named "Genghis" and a prototype cubic-inch robot called "Squirt," says the next step of miniaturization is "gnat robots."

by Jeffrey H. Lang and Martin F. Schlecht of MIT in collaboration with Roger T. Howe of the University of California at Berkeley. They note that the small size of a micromotor produces "electromechanical characteristics which are significantly different from those of conventional motors." Theoretical calculations indicate that a micromotor could spin at an incredible 1 million to 10 million revolutions per minute and could reach such speeds in one ten thousandth of a second.

The preliminary cost calculations are just as breathtaking. It now costs about $400 to produce the wafer that serves as the construction base for microelectronic circuits. "Put a million of these motors on a wafer, and they don't cost anything," says Hazelrigg of the National Science Foundation. "Today, you buy a device with a million transistors in it, and you don't even think about it. You put it on your wrist, and it tells you the time. Maybe someday we'll make a mechanical variant of it that would fit inside a button and cost a penny."

Practical uses of such technology may not be far off, says AT&T's Gabriel. "Applications of simple, passive components, such as a throwaway blade attached to an existing piece of surgical equipment, may be possible soon. Anything that requires a controlled power source is further down the road."

Researchers remain uniformly cautious about premature enthusiasm because they are confronted with puzzling problems. For example, cooling procedures during the manufacturing process can cause micromachines to warp. Then there is the question of lubrication. The design of a micromachine may leave only enough space for a few atoms of lubricant. Would individual atoms of lubricant behave like grains of sand rather than lubricating fluid? No one yet knows.

What will be the effects of vibration on micromachines that are spinning at millions of rpms? No one knows. And will heat on a microscopic scale cause fragile parts to warp? No one knows.

Despite such unknowns, micromechanical researchers are uniformly optimistic. It may take a decade or two to iron out the difficulties, but there is general agreement that we now stand upon the threshold of a micromechanical age that is sure to revolutionize everyday life and commerce.

The forms of that revolution are difficult to describe for certain. Thirty years ago, an electronics engineer might have been hard-pressed to say what could be done with intricate, microscopic, integrated circuits. In forecasting uses of micromechanics, AT&T's Gabriel cautions conservatism. "The applications will probably be fairly mundane," he says. "The first person who worked on microprocessors probably didn't envision them winding up in ovens and dolls."

Nevertheless, some futuristic scientific minds are already beginning to speculate upon the next step—beyond and beneath micromechanics. They are talking about nanomachines, built to precise atomic specifications. NB

COMMENTARY

Common Sense About Capital Gains

By Warren T. Brookes

One of the keys to our competitive survival rests in reducing the high U.S. costs of capital, which are now three times those of Japan and the Pacific Rim and double those of West Germany.

Unfortunately, the 1986 tax-reform law worsened that situation by eliminating the exclusion for capital-gains income, raising the effective tax rate on capital gains this year to 33 percent from 20 percent, a massive 65 percent increase on capital-gain costs.

This is not only competitively counterproductive, it is also fiscally suicidal. Every time we have raised the capital-gains tax rate, the revenues have fallen, and every time we have cut the rate, the revenues have risen.

Since over 75 percent of those revenues are raised from the top 1 percent of all taxpayers, lowering capital-gains taxes not only is good tax policy but also is a way to get the rich to pay a bigger share of the tax burden by encouraging them to invest more in economic growth.

Indeed, a lower rate on capital gains is the largest reason why the top 1 percent's share of federal income-tax payments soared from 18.1 percent in 1981 to 26.1 percent in 1986—and why income-tax payments by this top group rose from $51 billion in 1981 to $97 billion in 1986, a 90 percent increase in taxes paid. In the same period, there was only a 13 percent increase in revenues collected from the group consisting of all but the top 5 percent of taxpayers; this 95 percent group comprises those earning less than $50,000 a year.

Yet there was nothing surprising about this trend. From 1968 to 1976, at the instigation of Sen. Edward Kennedy (D-Mass.), the capital-gains top marginal tax rate was raised from 25 percent to 49 percent. Kennedy's idea was to double the tax take from the wealthy and "stick it to the rich"—as some lawmakers said at the time.

Instead, the income from this tax actually fell in constant dollars by 33 percent, and most of this decline was in taxes paid by the top 1 percent of taxpayers because their share of the income-tax burden actually fell during this period.

This evidence was so clear that when the entrepreneurially minded U.S. high-technology industry came to Washington in 1977 to propose that the capital-gains tax rate be cut back to 28 percent, the late Republican Rep. William Steiger of Wisconsin got strong bipartisan support for his amendment to make the reduction. Steiger's measure became law in 1978.

The Carter administration fought this reduction all the way. W. Michael Blumenthal, who was then secretary of the treasury, warned that the Steiger Amendment would "lose revenues of more than $2 billion annually."

Instead, revenues immediately began to rise, and by 1979 they were 42 percent higher than they had been when the rate was 49 percent, recapturing nearly all of the lost ground of the disastrous Kennedy-bill years.

Lowering capital-gains taxes not only is good tax policy but also is a way to get the rich to pay a bigger share of the tax burden by encouraging them to invest more in economic growth.



Warren T. Brookes is a nationally syndicated columnist on economic issues.

From 1982 to 1985, after the 1981 Reagan tax cut took effect, capital-gains revenues at the reduced top rate of 20 percent almost doubled in constant dollars.

In spite of this, in 1986, Congress forced the administration to accept its proposal to "stick it to the rich" by wiping out the capital-gains exclusion in return for the lower marginal rates, on the theory that this would help "pay" for those rate cuts.

The effect was immediate. In 1986, taxpayers rushed to realize their capital gains and declare them at the 20 percent rate. This doubled total revenues from this tax in 1986. But it set up the opposite trend for 1987, when, under the higher rate, capital-gains tax revenues fell, reportedly by as much as 40 to 50 percent.

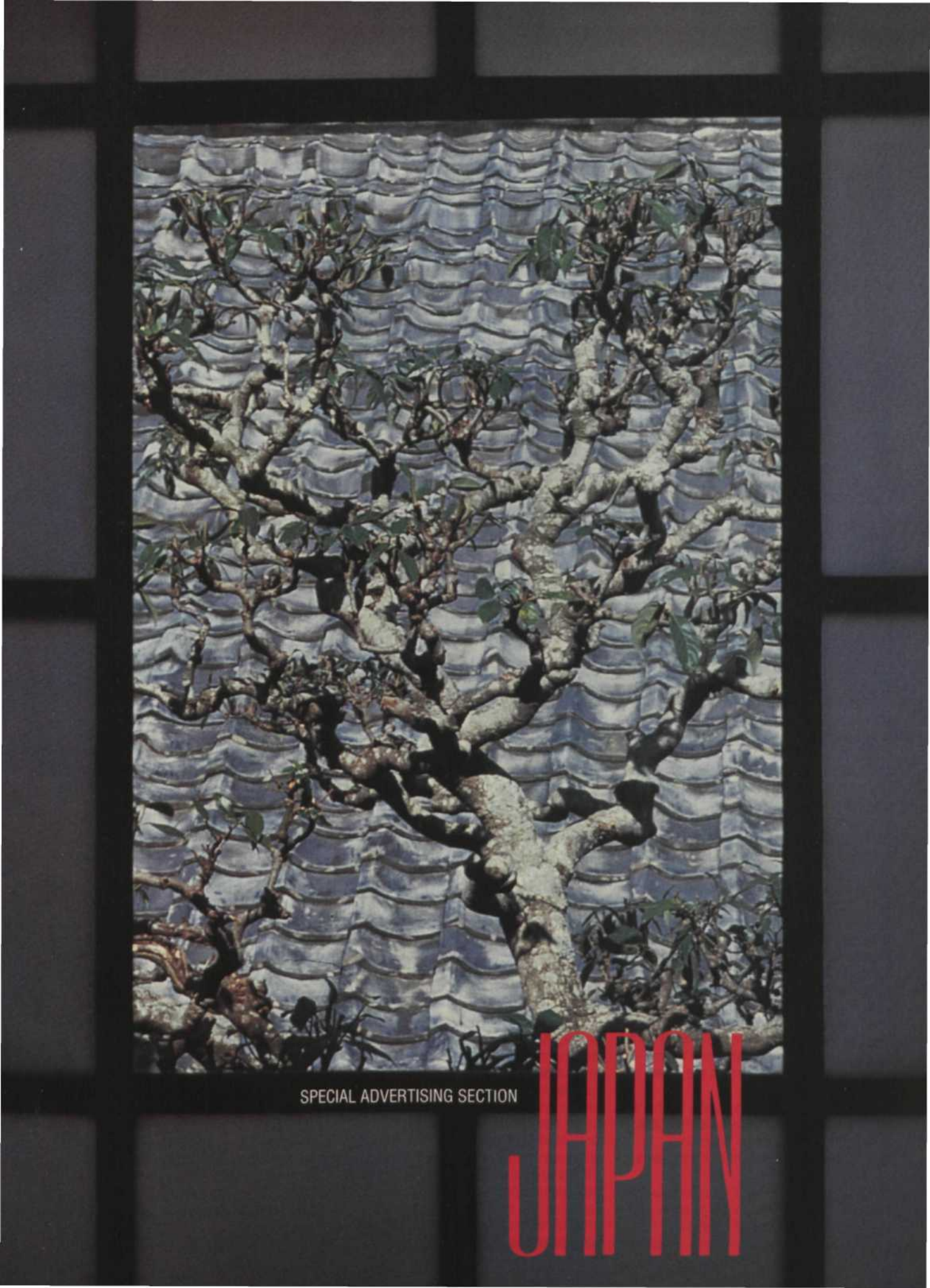
At the same time, a number of financial experts also observed that when the tax reward for holding capital over six months was wiped out in January, 1987, the stock market's turnover and volatility soared as traders no longer had an incentive to wait for their gains, and speculation began to replace investment decisions. This in turn rewarded the already large and established corporations' stocks by promoting takeovers and mergers rather than long-term growth, and it punished the dynamic growth enterprises where the rewards take longer to arrive.

As Richard Kopcke, economist for the Federal Reserve Bank of Boston, said recently, the 1986 tax law "should increase the equity values for all mature corporations," but "the higher tax rate on capital gains will tend to depress the equity values of the 'growth stocks' that do not promise their shareholders dividends until many years have elapsed."

This is why if George Bush wants dynamic economic growth and a thriving small-business sector, he not only should push hard for the capital-gains tax reduction he campaigned on but also should set up graduated holding periods, as his treasury secretary, Nicholas Brady, has suggested.

This could take the form of a 20 percent top rate for capital held longer than six months and a 15 percent top rate for capital held over one year. Both of these periods could be lengthened if politically necessary.

But it is clear that these lower rates would not cost the Treasury anything, and they would not be a "payoff for the rich." Careful research by Harvard's Prof. Lawrence Lindsay for the National Bureau of Economic Research suggests that the Bush proposal would actually increase revenues by as much as $11 billion. The "rich" would pay more taxes, and the economy would grow more jobs. NB



SPECIAL ADVERTISING SECTION

JAPAN

J A P A N

Seeking Better Trade Ties

By Nobuko Hashimoto

The rapidly appreciating yen and the strong Japanese economy are bringing structural changes to trade patterns between Japan and the U.S.

Some Japanese companies are exporting less to the U.S., instead setting up production plants in America in an effort to cut losses, avoid protectionist barriers, and enjoy proximity to the local market. These companies also are trying to take advantage of the weak dollar to re-import their American-made goods to Japan.

In addition, more and more Japanese companies transferring production and investing in property overseas are becoming aware of the need to participate in their new communities to prevent trade and investment frictions.

Until now, Japanese attempts to ease trade frictions between itself and the U.S. had focused on exporting less and investing more. More than 30 American states have offices in Japan, and governors of these and other states continue coming to Japan seeking new investments.

While many Japanese companies have taken up these invitations, that's probably not enough, says Yuzaburo Mogi, managing director of Kikkoman Corporation, who has been honored with the title "honorary ambassador" by the state of Wisconsin, where his company established a production plant in 1973.

Foreign companies are invited to invest in states to increase employment and stimulate local economies. However, not all companies understand this when they invest abroad, Mogi explains.

With the yen getting so strong against the dollar, there is more incentive for the Japanese to go abroad. A company may establish its facilities in the U.S. and hire American workers, but it also may continue doing business with Japanese partners and make no effort to become part of the local economy. "They probably don't do it intentionally. They probably don't know what the expectations are on the other side," Mogi says.

Kikkoman learned this lesson the hard way. "Fortunately or unfortunately, there was strong opposition in Wisconsin against the establishment of Kikkoman's first sauce-making facility back in the early '70s," Mogi explains. Opponents didn't want a factory in their state because they were afraid of environmental pollution. After two and a half months, Mogi, who then was section chief, managed to convince the opposition that making soya sauce doesn't produce pollutants. Mogi says he also made it widely known that the plant would use a lot of American soybeans in making the sauce.

On the cover: Framed by a window, a tree in a courtyard in Hagi shimmers against a backdrop of roof tiles. Photo: Sam Abell.



PHOTO: JED SHARE—THE STOCK MARKET

This Japanese pharmaceutical-manufacturing facility looks like the set of a futuristic movie.

Since then, the company has been accepted, but it remains very conscious of the importance of working with and being in harmony with the local people. "If there had been no opposition in the beginning, maybe we wouldn't have been as careful as we have been," he explains. "It's important to go local and try to do business with local companies, provided their conditions are the same as those of the Japanese counterparts. . . . After all, we're not [working] for charity," he adds.

While it continues to work with Japanese banks, which still provide the firm with more favorable terms, Kikkoman in America does business mostly with American companies.

The key to good relations is having detailed discussions before a commitment is made, he explains. Americans should explain exactly what they want when they invite Japanese investments, and interested Japanese companies should say from the beginning what they are prepared to do.

Some difficulties arise from cultural differences, Mogi concedes. The Japanese may have good education levels, but most haven't been trained to have discussions and debates. For example, in school, Japanese are discouraged from arguing with the teachers. As a result, Japanese often take a straightforward debate as a quarrel, which doesn't help bilateral talks, he adds.

To contribute to community activities, Kikkoman has sponsored annual cultural exchanges for nearly 200 Japanese and American high-school students. More recently, it has decided to cosponsor, in cooperation with the U.S.-Japan public-television council, a public-television project of the Nebraska ETV Network titled "Japan: Toward the 21st Century."

Shozo Shimizu, executive vice president of NEC, a major Japanese electronic manufacturing company, claims the two main problems existing between the U.S. and Japan are the trade imbalance and the yen-dollar exchange rate. "Each year, we're becoming aware of the need to resolve these problems," he says.

NEC's experience with the U.S. has been quite long—since 1968, when it opened an office in New York. It has been manufacturing products in the U.S. for more than a decade, and the firm currently manufactures in America about 40 percent of products sold locally. In two or three years, the company hopes to raise this ratio further, to 60 percent, and to increase the production capacity of its seven U.S. manufacturing plants.

Shimizu concedes that part of the reason for transferring production to the U.S. is that the yen is getting too strong to export from Japan. However, he also points out that this could be beneficial to the U.S., because of the job opportunities these plants create. (NEC currently employs about 7,000 in the U.S. That figure is expected to increase as company facilities expand.)

Besides manufacturing in the U.S., NEC

GLOBAL CONNECTIONS



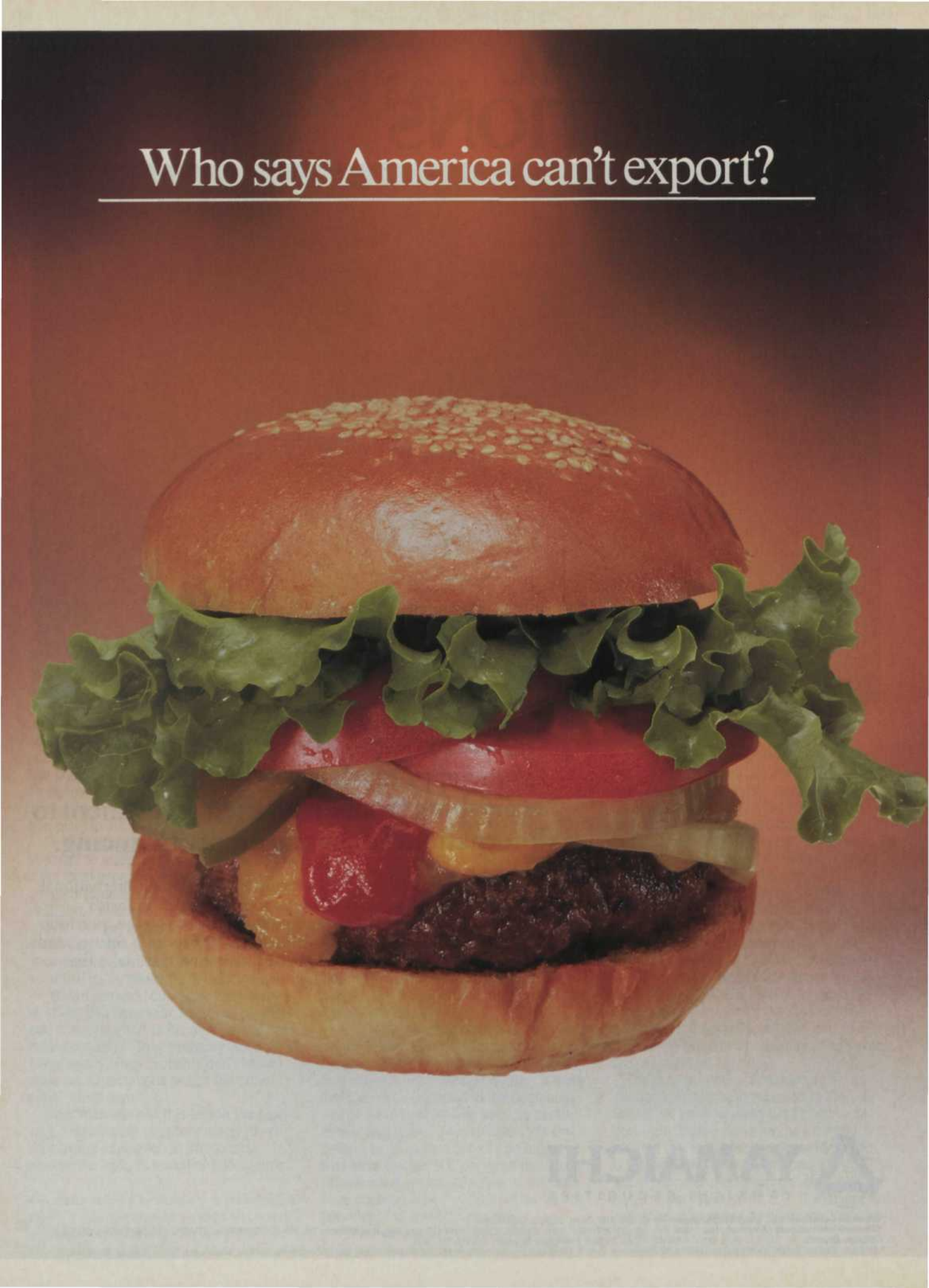
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Painstaking attention to quality control is a hallmark of Japanese industry. Here, a worker at the Kawashima Textile Factory, in Kyoto, inspects fabric for flaws.



PHOTO: WAYNE EASTEP—THE STOCK MARKET

imports American goods. The company purchases about 100-billion yen worth of components and equipment from abroad, of which 90 percent are from the U.S. "We hope to increase this volume further," says Shimizu.

The major part of imports from the U.S. are semiconductors, which account for about 20 percent of chips needed for the company's own use. This is NEC's way of keeping to the U.S.-Japan semiconductor accord. Americans have been urging Japan to buy U.S. chips to supply 20 percent of market demand. "If every electronic maker started to buy as much as we do, we would resolve this problem quickly," Shimizu says, adding that if the agreement had been signed between private companies and not governments, the dispute probably would have been settled by now.

The problem is that there aren't enough semiconductor chips in the U.S. for civilian use to meet this requested quota, and Japan can only use those for civilian use, he explains. "We need time to resolve these differences," Shimizu says, "but the important thing is that both sides try to maintain the spirit of free trade."

To keep good relations with the local communities, NEC is making contributions to American universities through its subsidiaries and sponsoring exchange programs between students in the U.S. and in Japan.

C. Itoh, a leading Japanese trading company, is actively doing business worldwide, and the U.S. remains one of its most important markets. The company's New York subsidiary is practically C. Itoh's second corporate headquarters, according to Masanori Morioka, director and head of the C. Itoh Economic Research Institute.

Each year over the last three years, the company has been buying from the U.S. about $15 million of goods—including primary products such as chemicals and meat products. It also has been selling to third countries more than $12 million worth of American textiles, chemical products, primary goods, and steel products each year.

According to Japanese statistics, two-way trade between Japan and the U.S. for the fiscal year ending March, 1989, is expected to reach $135 billion, and next year it is expected to reach $150 billion, an increase of about 10 percent a year.

Mutual dependence is high, and for Japan, in particular, the U.S. is a key trading partner, Morioka says. Nearly 10 percent of American exports are handled by the local subsidiary of this Japanese trading company. Morioka believes, therefore, that if people of both countries remain rational and try to understand each other, they can resolve present trade frictions.

However, Morioka fears the new year could be a tense one for U.S.-Japan bilateral relations. A historian at heart, he notes that the year of the snake, one of the 12 signs of the Oriental zodiac, has always been turbulent:

- 1929 saw great economic panic worldwide.
- 1941 brought the start of the Pacific war between Japan and the U.S.
- 1953 witnessed several incidents, including the death of Joseph Stalin.
- 1965 was a depressed year for many Japanese companies, and it was then that the U.S. escalated fighting with North Vietnam.
- 1977 saw problems as the yen rose in value from 275 to the dollar to 175.

Therefore, for the Japanese, the year of the snake provides a sense of foreboding of "a sort of jinx that the economy will suffer or that peace will be disrupted," Morioka says.

Relations between Japan and the U.S. have been cyclical, according to Morioka. The first cycle is the start-up of new relations—when Commodore Matthew C. Perry first came to Japan, for example. In the second, relations are friendly. In the third there is conflict, and in the fourth there is war. In the post-World War II period, Japan-U.S. ties resumed again at the first cycle, he says. "We are now back into the third phase," Morioka warns, adding that, historically speaking, now is an important period of adjustment.

In order to get back to the first cycle with the U.S. again, he believes, Japan must strengthen its efforts to boost domestic demand; must assume greater international responsibilities by increasing aid—particularly to countries in strategically important places such as the Philippines and Latin America—and by assisting in the financing of the U.S. military based in Japan; and must further open its market to agriculture products, high-technology goods, and services.

He adds, however, that Japan's trade structure has been changing very quickly, and domestic demand has grown dramatically over the last two years. Export dependence as a percentage of gross national product has fallen to 13 percent in the current fiscal year from a peak of 17 percent in 1984. In the current fiscal year, Japan will import $90 billion; by the 21st century, Morioka predicts, Japan will be importing about $500 billion, of which about 60 percent will be manufactured goods.

By then, Japan should be a 7-trillion-yen economy, so it could afford to import from the U.S. $300 billion of manufactured goods—a sacrifice that would ensure that it wouldn't be boycotted by the rest of the world, he suggests. "Even if we were to suffer a temporary deficit, we would have to do this as a matured economy," he insists.

Japan has been gradually opening up its financial markets, too. And with more liberalization, there is also a tendency among Japanese financial institutions to become more international. "In the next 5, 10 years, the focus will be to set up a better information network, a better infrastructure for invested capital," says Hitoshi Ishihara, managing director and chief operating officer of the International Division of Yamaichi Securities, one of the four top securities companies in Japan.

"People are investing more actively in Japan, and the market is coming up with new financial instruments—such as futures and options—which will be introduced next year." The company already has an extensive network worldwide with 23 outlets in 16 countries.

At the same time, Yamaichi also hopes

Automobile engines are logged in by an employee of Mitsubishi Motors before they are shipped to an assembly plant.

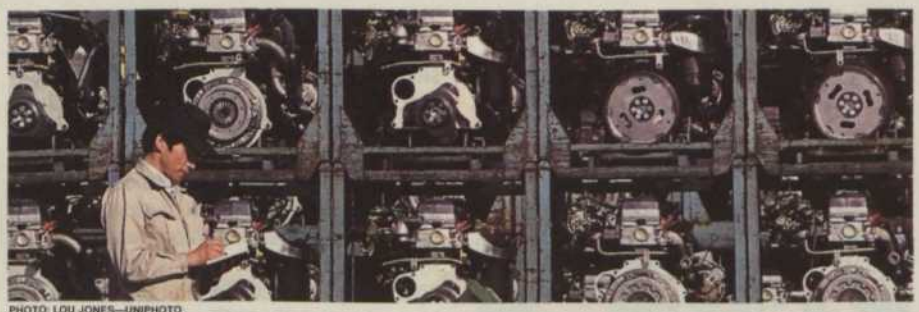


PHOTO: LOU JONES—UNIPHOTO

to provide international services to customers at home. In the U.S., Yamaichi is a member of the Chicago Board of Trade and the Chicago Mercantile Exchange. It has relations with regional American securities companies and has established an investment-banking joint venture with Lodestar, an American investment bank specializing in mergers and acquisitions.

In the United Kingdom, it has also established a banking subsidiary, Yamaichi Bank UK. Yamaichi's target is to provide services from the three major markets in London, Tokyo, and New York.

Furthermore, Yamaichi already has developed a basic system for managing investments and hopes to provide an efficient integrated system for investing in bonds, stocks, and various other financial instruments.

Although critics maintain that the Japanese market isn't open enough, Ishihara insists that the Japanese market has become liberalized at a quick pace, because it is becoming one of the most important markets in the world. Of the 265 securities companies operating in Japan, 45 are foreign, 22 of which have been accepted already as members of the Tokyo Stock Exchange. Further liberalization of the Japanese financial market will happen but at a more gradual pace to avoid confusion.

Despite the feeling of uncertainty that has prevailed in the world market since October, 1987, and that has prompted some securities companies to lay off people in the U.S., Yamaichi, which has a staff of 270 Americans in its U.S. subsidiary, has no intention of laying off anyone. "We don't do anything drastic like that," Ishihara emphasizes.

Japan has a $50-billion trade surplus with the U.S., but it is putting in the U.S. an equivalent amount—$10 billion in direct investments and $40 billion in securities investments, says Hideo Ishihara, managing director of International Headquarters at the Industrial Bank of Japan (IBJ), a leading long-term bank. This way, the Japanese are contributing to resolving the U.S. trade and fiscal deficits, he says.

In recent years, the Japanese have been major investors in U.S. securities, particularly Treasury bonds, even after the global stock market drop of October, 1987. With the yen appreciating rapidly against the dollar, the Japanese institutional investors who have been buying these bonds have incurred huge losses. Even so, they have not shied away from the dollar.

Part of the reason is the rapid development of pension business in the last 10 years. A major part of these funds has been invested in American-, Canadian-, and Australian-denominated bonds. These foreign bonds are considered to give higher yields than those issued in yen, even though the currencies may be "softer" than the yen.

Huge Japanese institutional investors such as life-insurance companies also have managed to cover losses incurred from foreign exchange through the stock market. Even so, if the yen continues to strengthen against the dollar, some institutional investors may eventually shy away from dollar-denominated Treasury bonds. "I feel we're reaching the limits unless the dollar stabilizes," Ishihara warns.

Japanese direct investments in the U.S. have been increasing, and IBJ, which always has been strong in promoting industrial development at home, has been instrumental in helping establish some companies abroad. In fact, it has signed agreements with 11 American states to assist them in attracting Japanese investments. The bank furnishes information to potential Japanese investors about favorable tax conditions, locations, and raising necessary funds. Nissan Motors' plant in Tennessee and Fuji Heavy Industries' plant in Indiana are good examples of the fruits of such efforts.

Ishihara recently led a mission of the Keidanren (Japan Federation of Economic Organizations) to Alaska and Hawaii. In Alaska, he got a promise from the governor that his state, which is the only one in the U.S. that still imposes a unitary tax, would scrap it in order to encourage investments from Japan. Alaska is eagerly counting on new Japanese investments especially now that its economy has been affected adversely by the world energy situation and by the fact that an increasing number of airlines, on long-haul routes, are flying directly to their destinations and not via Anchorage.

In the case of Hawaii, the purpose of the mission was to cool down the "property-investment friction" that has arisen on the island since Japanese investors began buying up real estate and causing property prices to skyrocket. Ishihara concedes, however, that lone-wolf-type real-estate speculators are not likely to be dissuaded by the Japanese Keidanren as long as such speculation remains profitable. Still, Hawaii is welcoming the Japanese and their investments in other areas, such as in some of the island's projects in the areas of agriculture, biotechnology, and even the space industry. Hawaii also has visions of becoming a financial center linking Japan and the U.S. mainland.

Even though the Japanese have been encouraged in the past to make direct investments abroad, when they do, they sometimes aren't that popular. "It's a very difficult problem," explains Ishihara. His theory is that 99 percent of Japanese firms are very domestically oriented companies that have been going abroad in droves the last two years or so purely because of the *endaka* (strong yen).

Many of these firms are inexperienced in international affairs and often don't have appropriately trained staff. Because of language difficulties, they often stick together and don't mix with other members of the local communities. Therefore, they stand out even more as a group. Their perceived "overpresence" may be interpreted as some sort of "conspiracy by Americans, who may think that this is another Pearl Harbor situation.

"But this is absolutely not true," Ishihara insists. "The tens of thousands of Japanese [in the U.S.] are all doing their own thing. . . . We are going through a learning process, and I want to appeal to the Americans and say, let's try to cooperate together. There isn't such a thing as a Japan, Inc."

Part of the problem, he continues, is that the Japanese are corporate people who know how to work hard for their companies but don't have a strong community spirit. They don't realize that their American counterparts often contribute part of their profits to the community or take part in its activities. He would like to see a change in the Japanese corporate culture. He also would like to see instilled in Japanese workers a need to establish a rapport with the people around them. As part of this effort, Ishihara himself gives seminars every two months to employees going

abroad on how to establish good human relations.

Besides advising Japanese companies about "green-field" investments (buying land and setting up new facilities), the bank also has an investment-banking department to help companies with mergers and acquisitions. The concept of mergers and acquisitions is still relatively new to Japan, but Ishihara explains that the speed of the appreciation of the yen has been so fast that some companies, especially automobile manufacturers, would find it more cost-efficient to buy existing plants of American companies than to build them from scratch. Three years ago, IBJ itself bought a New York banking subsidiary of the Schroder Group in London, which is now called IBJ Schroder Bank and Trust Company. Among recent deals, IBJ, in cooperation with IBJ-Schroder, assisted the acquisition of the Westin Hotel Group by Aoki Construction, and of the Gould Company by Nippon Mining Corporation.

IBJ's assistance isn't limited to Japanese companies going abroad. It also is actively helping foreign companies do business in Japan. The investment-banking team within IBJ Schroder Bank and Trust Company is trying to bring to Japan those American companies that have never been there before.

Moreover, the bank has a regular program of inviting to Japan, twice a year, leading U.S. and European institutions' treasurers and financial officers, to allow them to become familiar with the Japanese financial market, investment climate, and industrial structure.

Hitachi has been doing business in the U.S. for almost 30 years. Through its wholly owned American subsidiary, Hitachi American, Ltd., the company has in America almost 5,000 employees and seven manufacturing-plant facilities, with more than 700,000 square feet of capacity.

The company made its first direct overseas investment in computer activities when it set up Hitachi Computer Products America, Inc., in Oklahoma, in late 1985, and it has been manufacturing and selling computer products in the U.S. since April, 1987. There are plans to double the production capacity at this facility, says Kazushige Mita, the Hitachi president. In addition, Hitachi has established a research-and-development center, in cooperation with Oklahoma University, and another R&D center for developing automobile parts to match the needs of customers in the American market, Mita says.

Currently, Hitachi exports to the U.S. about 40 percent of its total exports but hopes to raise the ratio of its locally manufactured products in the U.S.

Hitachi, Ltd. also is doing its part to buy American products. In the last fiscal year, which ended in March, 1988, it imported a total of $1.02 billion, including $450 million in American-made goods. Mita says that Hitachi also is making efforts to buy American semiconductors. In the current fiscal year the company is expected to buy about 14 billion yen worth of semiconductors, mostly from the U.S., which account for about 10 percent of the company's needs. Japan needs chips for making domestic appliances, but the problem is that the Americans don't make many of the sort we need, Mita explains.

The president believes that while the Japanese market is open overall, there is still room for the American manufacturers to get to know this market better in order to sell more of their products there. "A Japanese company would make sure it has English-language pamphlets and catalogs to sell its products in the States, but not that many American companies come to Japan prepared with Japanese-language literature or make any attempt to speak Japanese," Mita notes. He concedes, however that this is probably because the U.S. always had a sufficiently large domestic market and didn't need to go abroad to sell, while the Japanese, who have always depended on foreign markets, have had to learn how to sell abroad.

Mita underlines the importance of understanding each other and realizing that there are basic differences between the two countries' attitudes and approaches to business. "I always tell my people that we are at a stage of internationalization, and we must try to understand the differences in culture," he says.

To contribute to local communities in the U.S., the company established the Hitachi Foundation in Washington, in 1965. Some of its activities include granting four-year, $20,000 scholarships to outstanding science graduates from local high schools; inviting annually teachers from four high schools to see firsthand how their counterparts live in Japan; and contributing to U.S. universities, particularly those in the field of science and research.

A Nose for Taste

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Direct Line

Useful information on launching a start-up, protecting your ideas, and tracking down trade shows.

Nailing Down Start-Up Data

I am interested in opening a nail salon. I would like some information on the nail industry and requirements for starting a business.
D.T., Old Bridge, N.J.

The nail-salon business is the fastest-growing segment of the cosmetology industry, says Fred Piattoni, executive director of the Chicago Cosmetology Association. "For a minimum amount of investment and training, a nail technician can make a very substantial livelihood, sometimes up to $1,000 a week," he says.

Piattoni suggests contacting your state's board of cosmetology regulation for information on licensing requirements.

You and other New Jersey residents interested in starting a nail salon would have to call the New Jersey State Board of Cosmetology and Hair Styling, in Newark; (201) 648-3212.

For the latest information on the nail industry, you might consider subscribing to *Nails* magazine, based in Huntington Beach, Calif. The number is (714) 841-5566.

Togs For Teens, Loans For Women

I am very interested in opening a clothing store for teens. Where can I find suppliers, and is any financing available from the government for female-owned businesses?
S.C., Doylestown, Ohio

The American Apparel Manufacturers Association has just what you need, but at a price. The association publishes an up-to-date alphabetical directory of approximately 450 manufacturers, listing their types and lines of garments, plant locations, addresses, and phone numbers.

The directory costs $100, paid in advance. Send a check or a money order to the association at 2500 Wilson Boulevard, Suite 301, Arlington, Va. 22201; (703) 524-1864.

As for federal funds, the Women's Business Ownership Act of 1988 permits the Small Business Administration to guarantee "miniloans" for amounts up to $50,000. (See article on Page 19.) Call the SBA Answer Desk for more information: 1-800-368-5855.

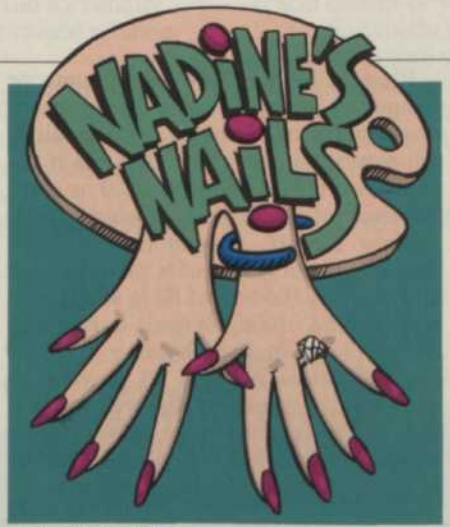


ILLUSTRATION: WILLIAM COULTER

An Idea Worth Protecting

I have come up with an idea that I believe would revolutionize the costs of billboard advertising. How can I protect this idea?
P.P., Canton, Ohio

You should treat your idea like a trade secret, says Robert Bernstein, chairman of the copyright-law committee of the American Intellectual Property Law Association, in Arlington, Va. Before you reveal your idea to a potential business associate, obtain a signed agreement that the person will not use the information or divulge it to anyone. Confidential disclosure agreements are fairly simple forms available from copyright lawyers. The hard part comes in persuading someone to sign, says Bernstein, who is with the New York law firm of Cowan, Liebowitz and Latman.

While you cannot copyright an idea, you may be able to copyright illustrations or materials that you develop to demonstrate your idea. You'll need legal advice to help you identify material that can be protected.

Tracking Trade Shows

I would like information on all trade shows in the United States and Europe.
E.S., Port Richey, Fla.

The *Tradeshow Week Data Book*, published by *Tradeshow Week* magazine, is the most comprehensive listing of major trade shows in the United States and Canada for the coming year. The annual directory costs $225 and can be ordered by calling or writing Tradeshow Week Data Book, 12233 West Olympic Boulevard, Suite 236, Los Angeles, Calif. 90064; (213) 826-5696.

Tradeshow Week magazine includes a calendar of shows that will occur 6 months or 12 months from the week of publication.

For a directory of European trade shows, you might try writing to *Tradeshow Week*'s sister company in England. Direct your request to Clare Walter, Reed Information Services Ltd., Windsor Court, East Grinstead House, East Grinstead, West Sussex, England RH19 1XA.

A Business For Business

I would appreciate any information about starting a business-meeting and conference service.
P.C., Augusta, Ga.

Meeting Planners International, an organization of self-employed and corporate meeting managers, publishes a monthly magazine that often includes articles on how to start a meeting-planning service. The organization also has a librarian who will provide information about the meeting-planning business to nonmembers.

For more information about the magazine, *The Meeting Planner Manager*, call or write MPI at Infomart, 1950 Stemmons Freeway, Dallas, Tex. 75207; (214) 746-5222.

The Professional Convention Management Association publishes a complete guide to the meeting and convention business titled *Professional Meeting Management*. Send $49.95 plus $3 postage to PCMA, 100 Vestavia Office Park, Suite 220, Birmingham, Ala. 35216. NB

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

Closing Law's Key Provisions

Employers should be familiar with the details of the new plant-closing law to avoid stiff penalties for noncompliance.

The plant-closing law enacted by Congress over business' objections will take effect February 4. From that date, employers must provide 60 days' advance notice of any closing or layoffs affecting as few as 50 workers at any one plant.

The law, officially the Worker Adjustment and Retraining Notification Act, is far more complex than that brief statement would indicate, however, and employers should be familiar with the details of the measure to avoid its stiff penalties for noncompliance.

The following explanation of the law was prepared by Mark A. de Bernardo, director of the Labor Law Action Center of the U.S. Chamber of Commerce:

The Key Requirement: The heart of the act reads: "An employer shall not order a plant closing or mass layoff until the end of a 60-day period after the employer serves written notice of such an order." This notice can be given to employees through mailings to their homes or inserts in pay envelopes. Oral notification is not official.

The Bottom Line: Failure to give required notice can result in employer liability to pay laid-off employees all the back pay and benefits (up to 60 days' worth) that they would have earned if the notification had been given.

Employers cannot be prevented from closing plants, relocating operations, or implementing layoffs, however.

An important point for all types of businesses to consider: The term "plant closing" might be misleading because the law applies to almost all segments of the private business sector, not just manufacturing, and it covers situations such as the termination of operational units or product lines and the hiring of outsiders to provide services once performed in-house. In addition, provisions of the act will be triggered much more frequently by layoffs than by actual closings.

Here are details of the new law:

Definitions

There are five key definitions in the act. They are:

Employer. Any business enterprise with 100 or more full-time employees or 100 or more employees who work a combined total of at least 4,000 regular hours per week.

Plant Closing. The permanent or temporary shutdown of a single site of employment or of one or more facilities or operating units within that site if the shutdown means the loss of 50 or more full-time jobs during any 30-day period.

Mass Layoff. A reduction in force that is not the result of a plant closing and involves the loss of 50 to 499 jobs at a single site of employment during any 30-day period and the number of workers laid off represents 33 percent or more of the total work force at that site, or involves the loss of 500 or more workers regardless of the percentage of the work force they represent.

The law applies to almost all segments of the private business sector, ... it covers situations such as the termination of operational units or product lines and the hiring of outsiders to provide services once performed in-house.

Employment Loss. This is an involuntary job loss not involving discharge for cause, or a layoff exceeding six months, or a work-hours reduction of more than 50 percent during each month of any six-month period.

Part-Time Employee. One who works fewer than 20 hours a week on average or has been employed for fewer than 6 of the 12 months preceding the required-notification date is considered to work part time.

Exceptions And Exemptions

The law specifies 15 employer/employment criteria for exemptions from the law. Not covered by the plant-closing notification requirements are:

- Employers with 99 or fewer employees.
- Closings that affect 49 or fewer workers.
- Layoffs of 49 or fewer workers.
- A layoff of 50 to 499 workers if the number of affected workers is less than 33 percent of the work force.
- Employees who average fewer than 20 work hours a week or have been employed fewer than 6 of the 12 months preceding the date of the required notification.
- Jobs vacated through retirements, resignations, or discharges for cause. (These should not be included in numerical calculations to determine whether the law applies to a given situation.)
- Layoffs of six months or less.
- A reduction of 50 percent or less in work hours.
- Relocations or consolidations of all or part of a business if, prior to the closing, the employer offers a transfer to the employee and there is a break in employment of no more than six months and either the move is to a work site "within a reasonable commuting distance" or the employee agrees to the transfer within 30 days of the employer's offer regardless of the distance to the new work site.
- Closings or mass layoffs caused by "business circumstances that were not reasonably foreseeable as of the time that notice would have been required."
- Plant closings or mass layoffs due to "any form of a natural disaster such as a flood, earthquake or ... drought."
- Strikes by unions or lockouts by management during a labor dispute. (The plant-closing law does not affect employer and employee rights and responsibilities under the National Labor Relations Act.)
- Layoffs resulting from the closing of a temporary facility or completion of a particular project, provided workers were hired with the understanding that employment was limited in duration to the time it took to complete the facility or project.
- Faltering companies in which an employer is actively seeking capital or additional business and "reasonably and in good faith" believes that advance notice would undermine the company's ability to obtain such capital or new business, and this new capital or business would allow the employer to avoid or postpone a shutdown.
- Employment losses that occur after the effective sale date of all or part

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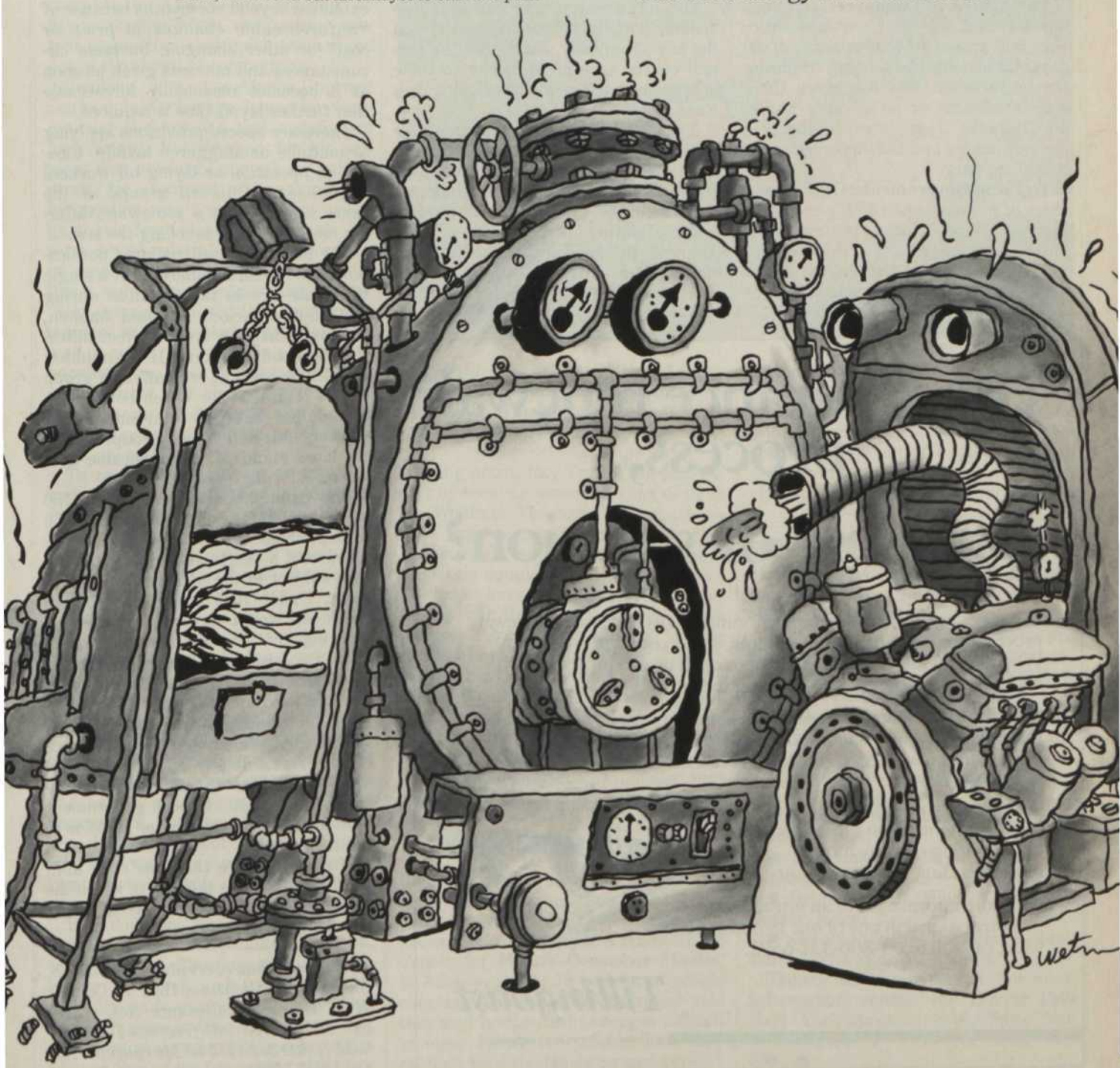
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of a business. (While the seller no longer would be responsible for providing 60 days' advance notice if layoffs sufficient to trigger coverage of the act occur after the effective date of a sale, the purchaser would be subject to the notification requirements.)

Penalties

An employer who fails to give notice required by the law could incur these penalties:

To "Aggrieved Employees": (1) Back pay for each day that required notice was not given, to a maximum of 60 days; (2) benefits costs incurred during the employment loss for which there was insufficient or no advance notice; (3) attorneys' fees, provided the fees are reasonable and the employee is the prevailing party.

To Local Governments: (1) Civil penalties of not more than $500 per day for each day of the violation, to a maximum of 60 days or $30,000. This penalty would not apply if the employer has paid each affected employee, within 21 days after ordering a closing or mass layoff, the amount for which the employer is liable; (2) attorneys' fees, provided the fees are reasonable and the local unit of government is the prevailing party in any legal dispute over enforcement of the act.

Those are maximum penalties and may be reduced at the discretion of the court. And an employer who prevails is also entitled to reimbursement for reasonable fees for attorneys.

The only penalties provided are those dealing with employer payments, and the law specifically states that the federal courts have no authority to issue injunctions barring a plant closing or a mass layoff.

A civil suit charging an employer with failure to comply with the plant-closing act can be brought by a laid-off employee, by a union representing employees, or by a unit of local government claiming to have been "aggrieved" by noncompliance. The suit can be filed in the U.S. district court where the alleged violation occurred or in the district court for any area where the employer does business. The law permits class-action suits.

Other Points

If a temporary layoff extends beyond six months, an employer can be held liable for failure to provide the advance notice required by the law and could be subject to penalties.

An exception: An owner will be considered in compliance if the layoff is extended beyond six months because of "unforeseeable changes in price or cost" or other changing business circumstances and notice is given as soon as it becomes reasonably foreseeable that further layoff time is required.

There are special provisions applying to multiple or staggered layoffs. Closing an operation or laying off workers within separate work groups at the same site involves a somewhat different mechanism for invoking the law.

The basic standard requires notification if 50 or more employees at a single work site are in layoff status during any 30-day period. It could happen, however, that the layoffs affect different groups of workers. If the number of workers idled at each affected group is less than that for which notification is required but the total number of workers affected in all groups meets the law's standard, the applicable time period is 90 days, not 30.

For example, an employer of 150 workers who lays off 20 in June and 30 in September is presumed to have implemented a single layoff and is therefore subject to the notification requirement. Under such circumstances, the employer would have the burden of showing that the employment losses were the result of "separate and distinct actions and causes" and not an attempt to evade the law.

In determining which unit of local government should be given advance notice of a closing or layoff, an employer should select "the chief elected official of the unit of local government within which such closing or layoff is to occur."

If there is more than one such unit, the "tiebreaker" is the unit to which the employer paid the most taxes in the preceding year. **NB**

This article was excerpted from a U.S. Chamber publication, How To Comply With The Plant Closings Act, *which can be ordered toll free via 1-800-638-6582 (1-800-352-1450 in Maryland). Ask for USCC-2005.*

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To Market, To Market

Savvy salmon selling and reaching mature buyers are marketing matters explored in this roundup.

By Nancy Croft Baker

Fish Tales

How do you make fish stand out in a crowd? Just ask a couple of Alaskans.

Paul Schilling and Bob Woldrop—each the owner of a fish-processing company in Alaska—are applying to fish-marketing some new, often low-cost approaches that make them stand out in the crowd of competitors.

Schilling, who owns Alaska Gourmet Seafood, in Anchorage, began by cleaning and packing fish that vacationers had caught. But demand for his services was not large enough to make a profit. He expanded into canning, but his product was not sufficiently distinguishable from others' canned fish. After some floundering, Schilling conducted some focused market research to find a niche for his salmon and halibut. "Our research showed that the biggest increase in the Alaskan seafood market was in gifts," says Schilling. "And corporations are always looking for new and different gift ideas to give clients and associates." Research also showed that offering mail-order service can work, he says.

To reach affluent business travelers and vacationers in Alaskan airports, Schilling has set up freezer cases stocked with attractive gift boxes of packaged seafood, each box with a carry-on handle. The mail-order brochures are stacked next to the cases.

Schilling also packages fish in smaller portions—he calls them "diet" portions—in keeping with the single-serving trend. And his company's brochures promote the health benefits of fish, which is low in cholesterol.

"We've had to become more savvy about marketing," says Schilling. "For years in the Northwest, we put salmon in cans, doing it the same way, with no imagination. But now our competitors are the poultry and red-meat people who are coming up with new ways to combat cholesterol." Schilling expects record sales of $4.5 million this year.

Bob Woldrop, who owns Silver Lining Seafood, in Ketchikan, Alaska, takes a more offbeat approach to marketing his fresh and frozen fish. He does little advertising. His most effective marketing is done on T-shirts.

Several years ago, Woldrop leased an unused area of his processing plant to a budding artist, Ray Troll. Troll paid his rent by creating several T-shirt designs for Woldrop. The artist's works have since become popular in Alaska, and Woldrop now sells shirts that feature brilliantly detailed, Troll-designed fish.



PHOTO: MARK KELLEY

Bob Woldrop, who owns Silver Lining Seafood, a fish-processing plant in Ketchikan, Alaska, takes an offbeat approach to marketing.

"People have come to associate Silver Lining with Ray Troll's designs," says Woldrop. Cruise-boat tourists looking for light-hearted gifts with Alaskan motifs and frisky remarks (such as a salmon-illustrated T-shirt that suggests you "Spawn Until You Die") are encouraged to stop by Silver Lining's retail store. Customers who are lured in by shirts or key chains usually purchase some seafood before they depart.

The Mature Market

If your company is having trouble selling to consumers in their mid-50s and older, you might want to evaluate your packaging. According to a study by the Center for Mature Consumer Studies, in Atlanta, nearly 70 percent of people over age 55 who were surveyed said they find bottles and packages difficult to open. Nearly 60 percent said they couldn't read the labels on packages.

One third of the respondents said they have boycotted products or services because of advertising that they felt portrayed their generation inappropriately, and 3 out of 4 said that when they are unhappy with products or services, they tell other consumers.

Franchising Expos

The International Franchise Association has released its schedule of franchising expos for 1989:

- January 7-9: Westin Bonaventure Hotel, Los Angeles
- March 18-19: Hyatt Regency New Orleans, New Orleans
- April 8-9: Nassau Veterans Memorial Coliseum, Uniondale (Long Island), N.Y.
- April 29-30: Westin Hotel Renaissance Center, Detroit
- August 19-20: Disneyland Hotel, Anaheim, Calif.
- September 9-10: Holiday Inn O'Hare, Chicago
- October 14-15: Miami Convention Center, Miami, Fla.
- October 28-29: Ramada Renaissance Techworld, Washington

Tickets are $5 per person. For more information, contact the IFA at 1350 New York Avenue, N.W., Suite 900, Washington, D.C. 20005; (202) 628-8000. NB

THE FAMILY BUSINESS

Cultural Changes In A Family Firm

By Sharon Nelton

When Steven K. Fox took over his father's company seven years ago, he decided it needed a major overhaul.

Amot Controls Corporation, an industrial-controls manufacturing company founded by Elton B. Fox in 1947, was, without question, very successful. Headquartered in Richmond, Calif., near San Francisco, the company had experienced good profits, it had a strong market niche, and it had sales worldwide as well as a plant in England and sales offices in Switzerland. It enjoyed excellent rapport with its customers. By 1982, it had grown to 343 employees and had annual sales of $18 million.

But if it were left unchanged, Steve Fox feared, Amot would be a cash cow for a while but then begin to decline. "It would have died a slow death."

Already there were signs. "We were getting sluggish and bureaucratic and were taking on a lot of the character of a larger company," he recalls. Amot was losing some of its ability to respond quickly. "Our delivery times were getting worse and worse and worse."

The world outside Amot was changing, too. The company had grown overly dependent on the faltering gas and oil industry for its customer base. Patents on products developed by Elton Fox had run out, and they could be copied by companies competing with Amot. And relationships between union employees and management were marked by mistrust and hostility.

"I wasn't happy with the situation at all," says Steve Fox. "The environment was dark and dreary. People didn't smile much. There was no overall sense of real participation. It wasn't a reflection of how I wanted my business to be."

What was needed, he felt, was a revamping of Amot's corporate culture. His goal was a profitable, growing company that provides the best products and services to its customers and that is an enjoyable and challenging place to work.

Amot by then had reached what family-business expert W. Gibb Dyer, Jr., would call the third stage of its development. Dyer describes various stages of the family business in his book, *Cultural Change in Family Firms* (Jossey-Bass, 1986). The first stage is the creation of the business, and the second stage is the period of growth and development. The third stage marks the succession of the second generation; the family and business have matured, the founder is no longer the dominant force, and new problems emerge.



PHOTO: LINDA SUE SCOTT

Amot Controls Chairman Steve Fox, center, says his firm is "really charging ahead" under President and CEO Bob Hery, right, and Bob Miner, left, manager of manufacturing.

To handle each developmental stage successfully, Dyer says, a family firm must be prepared to change its culture—"the basic assumptions and values that underlie the behavior of the family and the firm." Most family businesses fail to make such shifts, however. Amot may be an exception, though, because it did change in some vital ways as control went from father to son.

One of Elton Fox's principles—and one that has endured—has been that the company should never go into debt. "All of our expansion was from profits," says the 71-year-old founder. "Whenever we bought property, it was purchased and paid for. We never had any mortgages. Many people told me that I was crazy for doing this because the business could really expand and grow at a tremendous rate, but I felt that going into debt would be going against my principles."

Under his leadership, Amot was a traditional manufacturing company; managers told workers what to do, and they did it. A self-described introvert, Elton Fox kept his distance from employees, working through his subordinates instead. Like many who start family businesses, he was secretive, particularly about finances.

"In those days, if the union discovered you were making a higher profit than they thought you ought to make, they felt that employees should get more of the profits themselves," he says. Today, he observes, unions are weaker, and employees understand that their livelihoods depend on the profitability of the company.

Amot became unionized in the early 1950s when the International Association of Machinists (IAM) convinced employees they would be better off with a union. Elton Fox says he was already offering wages and benefits above union scale, but he lacked the communication skills and personality that might have persuaded his workers not to go with IAM.

Yet though he was distant from his employees, he had a rapport with customers. A trained engineer, he had

Some of the underlying values and assumptions in a family business may have to change as the company grows and its leadership passes to succeeding generations.

worked in the engine-building industry, where he saw the opportunity to create a business producing engine controls. He possessed a deep understanding of his customers' needs and problems because he had once been in their shoes. He worked with customers to develop products they needed. He was patient enough to take the two or three years required to foster overseas customers. He had what one observer calls "outstanding business instincts."

Steve Fox possesses a different blend of strengths as a business owner. He is viewed as an outgoing person with sensitivity toward people, traits that led him to set as his first priority the development of a "people-oriented" approach toward Amot's employees. An underlying belief that guides him in running Amot is that "people are basically good and want to do a good job. Management's job is to create an environment which allows and encourages people to contribute and produce outstanding results."

The Amot story is unusual in that the transition from father to son has been relatively easy. Elton Fox made a clear decision about who his successor would be. He says the second-youngest of his five sons, Steve, was the only one with the know-how to run a business like Amot. Three of the others run smaller businesses of their own, and the youngest is still in college.

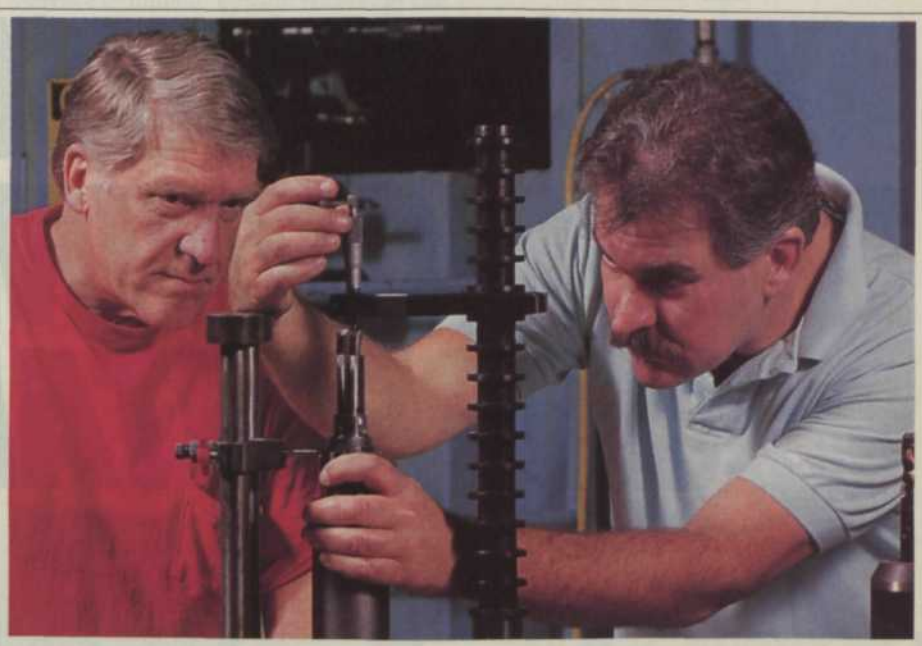
Steve Fox, 34, dropped out of the University of California at Berkeley after 3½ years as a business major to spend more time on a venture he had started as a college student: buying and selling apartment properties. A few years later, he joined Amot as sales manager. He assumed the presidency in 1982 and bought out his father in 1984.

In a move designed to establish the fact that his son was in power, Elton Fox rented office space for himself several miles away. "I decided it would be better if I just moved out and let Steve run the place and not have him under my thumb," says the father. He became chairman of a Christian mission organization and pursued other interests, staying too busy to meddle in Amot and leaving his son freer to make changes.

Steve Fox began to hold meetings with office staff and the shop-floor employees, letting them know what was going on throughout the company and giving them the chance to ask questions of him directly. "We also did things like have an occasional beer bust in the plant," he says. A couple of workers wouldn't have anything to do with the first one. "They thought I had to be up to something, and they just kept on working." He admits there was a hidden agenda: "I wanted everyone to align themselves with the goals of the company, enjoy their jobs, and be as productive as possible."

Steve Fox views himself as one who can set the stage for change. But he knew that to make change happen, he had to bring in other leaders whose ideas meshed with his. In 1986, he hired Robert E. Miner as manager of manufacturing. Miner, 42, brought with him 14 years of experience at Caterpillar, two years at the NUMMI GM-Toyota joint venture in Fremont, Calif., and a deep desire to implement a participative approach to manufacturing. Under Miner, the manufacturing operation changed from one with long assembly lines, large inventory areas, and repetitive, boring tasks to one where machines are organized in clusters, with employees at each cluster making, as much as possible, complete parts. Instead of hiring consultants to come up with ideas and solutions to problems, Amot sought ideas from its employees. "We worked from the belief that the knowledge we needed was already in the work force," says Miner.

Some employees, including some managers long accustomed to telling others what to do, found it hard to adjust to a system where workers' ideas are valued. But Leslie W. Ross, a machine-shop foreman, believes a four-





PHOTOS: LINDA SUE SCOTT

New techniques have paid off at Amot Controls, where Everett Vanloo and Andy Olech, above, make industrial controls such as the valves and casings at left.

MOST OF WHAT WE HAD TO SAY ABOUT BUSINESS THIS MORNING WAS UNPRINTABLE.



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Daily News Schedule

(All Times Eastern)	1st ½ hr	2nd ½ hr	3rd ½ hr	4th ½ hr
Top Business News	6:30	7:00	7:30	8:00
Financial News	6:35	7:05	7:35	8:05
Small Business News	6:40	7:10	7:40	8:10
Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:15
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month training program that Amot used to launch the changes helped soften opposition from union employees. The training enhanced their machining skills and introduced them to just-in-time manufacturing concepts. And because managers such as Miner and Ross were conducting the training, it increased communication between managers and union workers. Ross says that if Amot had not started with the training and had not given employees "the feeling that they were actually receiving something from the company, the resistance may have been a little bit greater."

In December, 1987, Steve Fox took Amot into the fourth stage of a family business: He turned it over to a professional manager. He named himself chairman of the board and installed Robert V. Hery, 47, formerly a vice president of KLA, a Silicon Valley high-technology company, as president and CEO. Fox felt he had opened the company up and that now it needed focus.

When Elton Fox retired, says Hery, he left a major gap—that of chief product developer and marketer. Hery is trying to fill that gap. He has already accelerated Amot's movement into electronic products.

Amot had existed in a static environment for a long time, and as a result its employees were unaccustomed to change and felt threatened by it, says Hery. He wants a company where people "can recognize change when it's coming, enjoy it, and see it as a chance to grow. And that's an extremely tough cultural change."

Hery has introduced sophisticated strategic planning to Amot. He also has revamped the company's financial reporting, and, for the first time, financial information is being shared with management so that "operating people can see the consequences of what they're doing."

He is recognizing employees who do a special job of pleasing customers or saving the company money. One day he awarded a plaque to the company's chief accountant, calling him the company's best customer-service representative. The accountant had gone out of his way to help a customer who needed an order fast and wasn't finding help elsewhere in the company.

Steve Fox says Amot is now "really charging ahead," and he has stepped back to let Hery run the show. Fox appears at the office only two or three times a week, electing to spend more time with his 23-month-old daughter and to pursue interests in psychology and working with youth.

During 1983, the first full year that the younger Fox was in charge, sales dipped to $15 million from the previous year's $18 million, largely reflecting the downturn in the oil industry. Sales in 1988 were expected to reach $22 million, and Fox is expecting a 10 percent jump this year. "Gross margins are improving with the productivity gains that we're starting to show," he says.

Animosity between employees and management has thawed, and morale is up. A 15-year employee, Andrew Olech, says, "People would rather go to work knowing that they were a little more responsible for themselves instead of just being at the mercy of somebody else and doing exactly what they're told." Amot even looks brighter these days, thanks to an interior paint job and the rearrangement of machinery.

While Steve Fox is pleased with what's happening at Amot, he's quick to caution that the new culture taking shape there is not necessarily better than the one that existed under his father. "If he hadn't taken his approach, we wouldn't have built the foundation and the success that the company has today."

No single cultural pattern is necessarily related to business success, author Gibb Dyer observes. The point, he says, is that a family firm must adapt its culture to meet changing times.

And Steve Fox plans to have his company keep on doing just that. "I think we're at a point where people realize that the real story is that we're into improvement, and improvement takes questioning things all the time and changing."

Frequently, business founders resist and resent the changes their children bring about. Not Elton Fox. Says he: "Steve probably did many things that I wouldn't have done myself, but I'm real proud of him. I can see that the changes he made are important, well-thought-out changes." NB

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Making It

Fancy foods for gourmets on the go, sweet sounds for partygoers on the town.

A Magnet For Gourmets

Elaine Yannuzzi, owner of Expression unltd., now a fancy-food emporium with $2 million in annual sales, knew how important it was to locate a store in a high-traffic area likely to attract large numbers of potential customers. Experts warned her against opening a retail business in a remote section of a quiet town.

Yannuzzi refused to be intimidated. She owned an empty building in a remote area of Warren, N.J., about 40 miles from New York City, and she was determined to use it.

"I had a plan," says Yannuzzi. It was "to cater to the then-commonplace, stay-at-home wife-mother who expressed herself through her husband, children, home decorating, cooking, stitchery, gift making." She would fill her store with unique, appealing "tools of expression"—clever crafts, decorative supplies, toys, gourmet cookware, gifts—that would lure shoppers to her out-of-the-way location for items they couldn't find elsewhere.

Before starting Expression unltd. in 1971, Yannuzzi worked for several years in her parents' garden center in Warren and became familiar with the stresses of operating a retail business. Banks were skeptical—22 of them refused to lend her the $50,000 she needed to get started—but her first year on her own, she broke even on a gross of $100,000.

The receipts from "one prime day" in Yannuzzi's first Christmas season were stolen in an armed robbery, though, and within her first two years, the store was hit twice by floods. There were many times she feared her fledgling business would go under.

"Fear is a strange emotion," says Yannuzzi. "It feels like a negative force, but it can keep you moving, propel you into doing more, into making things work."

After six years, she had a visit from an old friend. "My friend, who was in the food business, suggested that I bring cheese into the store to tie in with the gourmet cookware I carried," says Yannuzzi, who quickly decided to go with the idea.



PHOTO: DARIO PERLA

Elaine Yannuzzi, shown with employee Scott Largey, refused to let the out-of-the-way location of Expression unltd., her store in Warren, N.J., bar her path to success.

Cheeses were followed by exotic coffees, breads, jams, crackers, pates, and candies, as Yannuzzi observed that "times and women were beginning to change, and my food sections were becoming more popular than some of my other departments, such as stitchery and glassware." Those departments were discontinued to make room for more food offerings. Yannuzzi persuaded food manufacturers to subsidize what would become a lavish, no-pressure "try and buy" sampling program. She initiated a daily cheese-discounting policy, under which 75 to 100 cheeses a day were marked down 30 to 50 percent.

Slowly, Yannuzzi's burgundy-and-gray, barn-shaped store in the middle of nowhere was becoming a local and regional tourist attraction and an "in" shopping spot. Epicures from as far as 100 miles away would come to pick up mushroom brushes and elite cookbooks, along with salmon puff pastry, goat cheese, reindeer meat, and margarita-flavored jelly beans.

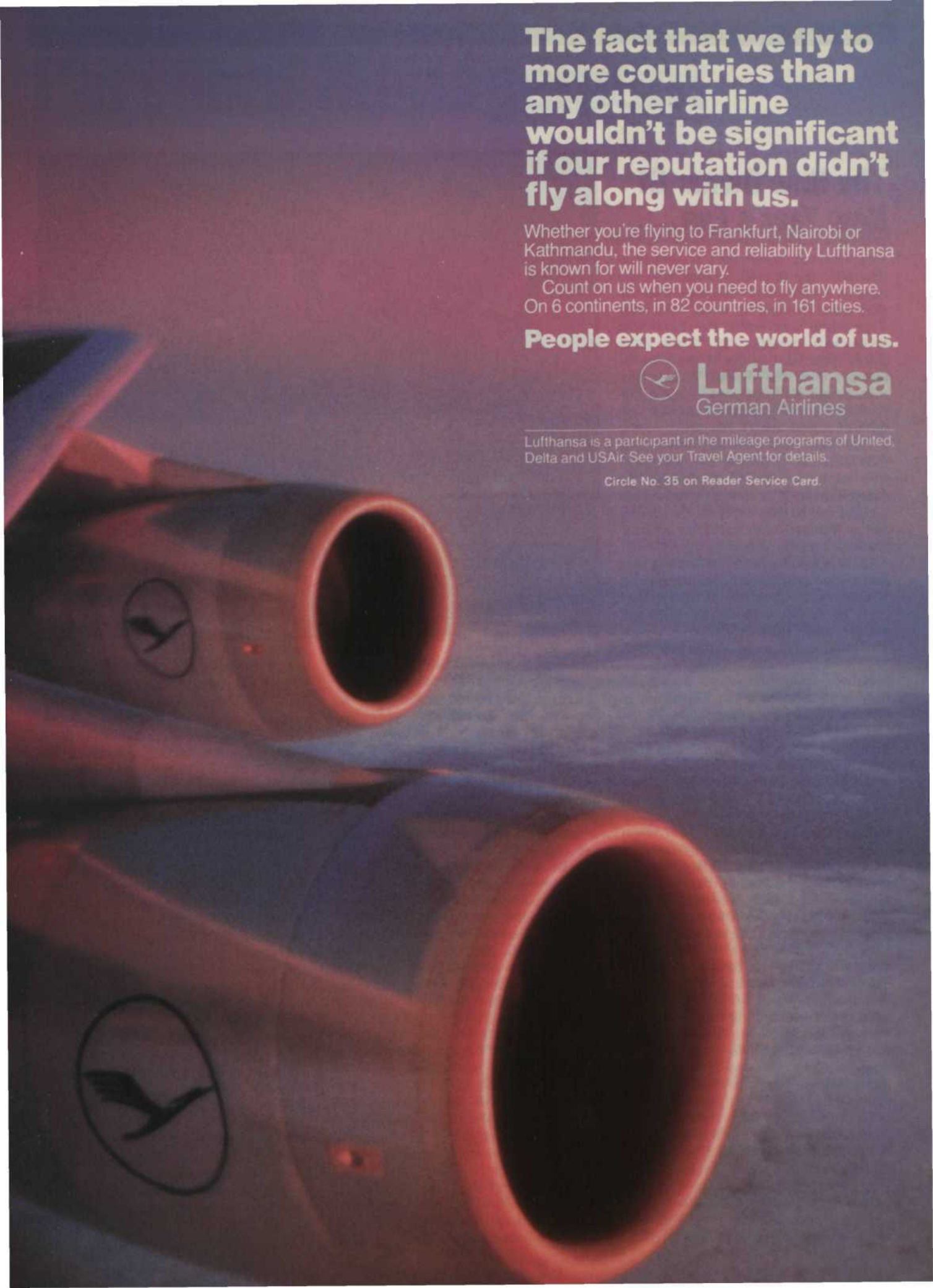
Yannuzzi says that whereas the typical food store enjoys stable sales for most of the year, with a "blip" upward just before Christmas, Expression unltd. has stable sales for the first 10 months and then "wild sales for the last two." That is because, she says, the store so successfully promotes the idea of "food as a gift, food as a special event, food as something that you entertain with at holiday time."

Yannuzzi has developed "gourmet-on-the-go" food and dessert take-out sections, and down the road she "may package certain elements of my business into repeatable 'modules' to be placed in larger stores interested in upscale departments, but without the expertise to initiate them."

Today Expression unltd., still in the same location, has expanded from its original 1,500 square feet to 10,000 (half of it used for offices and warehousing). The original staff of four women has grown to around 50 full- and part-time employees. The store offers 300 varieties of cheese, 112 jams, 50 crackers, 35 breads, 40 pastries, 32 coffees, 25 caviars, 150 chocolates, and 37 flavors of jelly beans, along with dozens of other edibles and nonedibles. Seventy-five pounds ($500 worth) of food samples are eaten daily. On weekends one employee does nothing but replenish the samples of cheese, caviar, pate, and baked goods.

Yannuzzi, who has received several awards recognizing her achievements as an entrepreneur, still spends six days a week at Expression unltd. Reflecting on her success, she says: "I don't see success and failure as opposites. They are two ends of the same stick. The stick is called 'doing,' and both success and failure are parts of the phenomenon of doing."

—Valerie Bohigian


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Jerry Kravat moves in a world of glamour—one of his orchestras performs on New Year's Eve at the Waldorf-Astoria. But despite all the glitter, he is really a hard-headed businessman whose specialty is producing entertainment for corporate clients.

The New Owner Of New Year's Eve

Jerry Kravat remembers a conversation with the late Guy Lombardo, the famous bandleader: "He once told me that when he died, he would take New Year's Eve with him." The Lombardo orchestra's rendition of "Auld Lang Syne," broadcast across the country for decades from the Waldorf-Astoria Hotel's Grand Ballroom, was inseparable from the turning of the year for millions of Americans.

But when Lombardo died in 1977, he didn't take New Year's Eve with him. You might say that it was passed to Jerry Kravat. It is now Kravat and his orchestra who play on New Year's Eve at the Waldorf-Astoria and are seen nationwide on CBS.

Or, it would be more accurate to say, Jerry Kravat and *one* of his orchestras; Kravat fields about 40 of them. Last New Year's Eve alone, he provided music for more than 30 parties, in New York and in places as distant as Palm Beach, Fla., and London.

Kravat leads one of his orchestras only 15 to 20 times a year. He is not so much a bandleader as a businessman—the head of Jerry Kravat Entertainment Services, a New York-based company with about 30 full-time employees and 1988 sales in excess of $15 million. "Other companies make widgets or cups and saucers," he says. "Our product is entertainment."

Kravat is, moreover, a businessman who spends much of his time producing entertainment for other business people. If a corporation is holding a large sales meeting, or introducing a new product, or celebrating a 50th anniversary, Kravat can come up with an appropriate show: "We have products for sale—it could be an ice show, an orchestra, a singer—but more often than not, we'll make something up." For one such corporate party, he recalls, "we produced a Broadway evening—on stage we had a troupe of singers and dancers doing numbers from Broadway shows." The room was decorated with posters from Broadway shows, and the table settings included playbills.

In the last two years, Kravat has provided entertainment at two parties for the Rockefeller Group, the privately held company that owns Rockefeller Center. Vince Silvestri, Rockefeller's assistant public-relations director, says that Kravat is very sensitive to the "underlying business objective."



PHOTO: ANDREW POPPER

Kravat, 51, estimates that such corporate events account for more than half his revenues. The rest comes from a potpourri of other entertainment ventures, including touring Broadway shows, musical revues for Manhattan hotels, and concerts by singer Barbara Cook, whose career Kravat manages.

It is a glamorous business—as Kravat says, "I'm not digging ditches"—but Kravat is wary of the glamour: "You get sucked in, especially in the theater, because it really is exciting to be the producer on an opening night."

He has been present on a few such occasions. He produced "Mayor," the off-Broadway musical based on New York Mayor Edward Koch's book, but he is less often involved with new shows than with touring versions of successful musicals like "A Chorus Line." He says: "I approach the touring shows in a very businesslike way. The shows that you do for Broadway are, at best, risky. Shows that we do on tour are not risky. We have presold them before we produce them. We know, basically, what the numbers are."

Kravat, a native New Yorker, has really never been star-struck. He backed into show business by working his way through New York University (he was a journalism major) as a bandleader. After graduation and then a stint in the Army, he kept working as a musician, becoming steadily more successful at it.

In the late '60s, in addition to being a bandleader, Kravat began working for the Waldorf-Astoria as its entertainment director, lining up talent for nightclubs like the Empire Room. He took on other New York hotels as clients and then, as nightclubs declined and his circle of contacts widened ("I have the biggest Rolodex you've ever seen"), he also began working with corporations that, as he says, "use live entertainment as a reward for their constituency, or a marketing tool."

Kravat's company has become a sort of entertainment miniconglomerate, perhaps unique in the broad range of services that it offers. It now produces shows for theme parks, for example, and provides not just entertainment but inspirational speakers for corporate meetings as well. If one thread links all of these activities, it is that almost nothing is on film or tape—just about everything is live.

"Our commitment is to live entertainment," Kravat says. But he is no diehard: That commitment, he adds, "could change." Like any good businessman, he is ready to go where the market dictates.

—Michael Barrier

Personal Management

To Your Health

By Phyllis M. Barrier

Cancer And Your Diet

The causes of some cancers are beyond our reach as individuals; we may have a family history of cancer, for example. But many cancers—estimates range up to 80 percent—appear to be caused by factors that we can control, at least to some extent. Excessive exposure to the sun, which can cause skin cancer, is one example. But we may be able to reduce our cancer risk most by paying attention to what we eat, drink, and smoke.

The evidence is not conclusive about just how closely cancer is linked to diet, but it is strong enough that organizations such as the National Academy of Sciences, the National Cancer Institute, and the American Cancer Society have issued dietary guidelines.

The experts' consensus on how you can use your diet to prevent cancer includes the following recommendations:

Reduce fat. A high-fat diet may increase your chances of getting cancer of the colon, breast, prostate gland, or endometrium (the lining of the uterus). Breast cancer, the leading cause of cancer deaths among women, is significantly lower in Japanese women who eat a traditional Japanese diet (20 percent of calories from fat) than in American women (40 percent of calories from fat). Obesity also puts you at greater risk for cancer, and cutting back on fat should help you control your weight as well as reduce your risk of heart attack and stroke.

Choose fewer foods that are high in fat: meats with marbling, cold cuts, bacon, sausage, whole milk, butter, cream, ice cream, coffee creamers (including the nondairy type), and creamed dishes. Cut back on rich desserts, on snack foods such as chips, on bakery items like croissants and doughnuts, and on meals that have been prepared with lots of oil, butter, or margarine. Instead, eat more low-fat dairy products: low-fat yogurt and cottage cheese, skim or 1-percent milk, baked or broiled poultry (remove the skin), fish, and lean cuts of meat with all visible fat removed.

Phyllis M. Barrier, M.S., R.D., is a nutrition consultant and nutrition coordinator for a Washington-area health-maintenance organization.

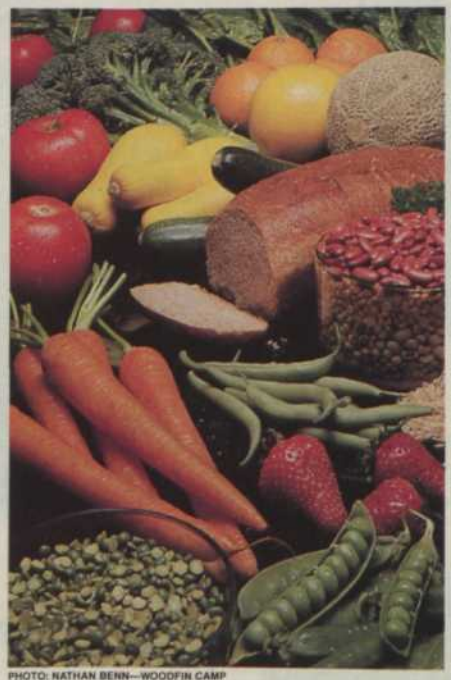


PHOTO: NATHAN BENN—WOODFIN CAMP

When your mother told you to eat your vegetables, she was doing more for you than she realized. It now seems that the vitamins and fiber in many vegetables may prevent cancer.

Increase dietary fiber. Dietary fiber is plant material that humans cannot digest, or can digest only in part, so it passes quickly through the body. Fiber thus helps prevent constipation and otherwise helps keep the digestive tract healthy. Most Americans eat only about 11 grams of fiber daily, but the National Cancer Institute recommends 20 to 30 grams per day. In countries where the diet contains adequate fiber, rates of colon and rectal cancer have been found to be lower than those in the United States. To increase fiber, eat several servings of fiber-rich foods daily: whole-grain breads, breakfast cereals whose lists of ingredients contain the words "whole grain" or "whole wheat," fruits and vegetables, and cooked dried beans and peas.

Eat foods with vitamins A and C. A link between cancer and a lack of these vitamins has been established in a number of studies. A lack of vitamin A, for instance, may lead to cancer of the prostate, cervix, skin, bladder, or colon. Moreover, the presence of these vitamins in the body may actively block some types of cancer. If you eat the right vegetables or fruits daily, you will get all of the vitamins A and C your body can use, and you won't have to resort to vitamin supplements. Vitamin A and beta carotene (which your body converts to vitamin A) are found in dark-green and dark-orange vegetables like broccoli, kale, collards, spinach, sweet potatoes, pumpkin, winter squash, carrots, bok choy, Swiss chard, brussels sprouts, cantaloupe, and apricots. To get vitamin C, eat citrus fruits and juices, strawberries, green peppers, broccoli, cantaloupe, and brussels sprouts.

Eat cruciferous vegetables. A few studies indicate that people with cancer of the stomach, colon, esophagus, lung, breast, or larynx typically eat fewer vegetables than the rest of the population. Certain vegetables from the cabbage family, known as cruciferous vegetables, may reduce your risk of cancer. These include brussels sprouts, cabbage, broccoli, cauliflower, rutabagas, and turnips. Eat several servings of these vegetables each week. Cruciferous vegetables are also good sources of fiber.

Beware of aflatoxins. Aflatoxins are poisons produced naturally by molds during the harvesting, shipping, or storage of some foods, particularly nuts, grains, and seeds. Laboratory studies have shown that aflatoxins cause liver cancer in animals, and they may be linked to cancers of the stomach and kidney in humans. To reduce your exposure to these molds, keep nuts, grains, and seeds in dry, sealed containers. If these foods become moldy, throw them away.

Drink moderately. Heavy drinking, particularly when combined with cigarette smoking, increases the risk of cancers of the mouth, larynx, esophagus, liver, and bladder. If you drink at all, drink only in moderation—no more than two drinks per day. A drink is equivalent to a 4-ounce glass of wine, a 12-ounce beer, or an ounce of hard liquor. NB

That ad for a new job may sound alluring, but anyone thinking of making the switch should pause to count the costs in reduced benefits.

Can a higher paycheck make up for a shorter vacation—or the loss of a pension?

It's Your Money

By Paul N. Strassels



PHOTO: KHOI TON

Job-Hopping: A Mixed Bag, For Employers And Employees

Lifetime employment is the norm in Japan, but in the United States, large numbers of employees change jobs on a semiregular basis. Today's workers are continually on the move, seeking more responsible positions and substantial raises.

This is especially true of those in professions such as sales, marketing, public relations, and advertising.

Years ago, an employer who was dissatisfied with an employee's performance would simply fire the worker, confident that there were many qualified people from whom to choose a replacement. Today that is not the case. The pool of available talent has dwindled, and both employers and employees know it.

The unemployment rate is well under 6 percent and has been for some time. Hundreds of thousands of new jobs are being created every month. Good employees are in demand, and they know that savvy employers will pay handsomely for their services.

Unfortunately, many job-hoppers see only the benefits associated with changing jobs, failing to recognize the significant drawbacks. On the other side, many employers still shy away from those who frequently switch jobs, ignoring the advantages associated with hiring short-term employees.

If you are an employee, a job change can adversely affect your retirement and other benefits. Even when it brings a substantial raise, a job switch can result in less monthly income because of reduced benefits.

Those who frequently change jobs and do not save for retirement through Individual Retirement Accounts and their own investments will have little to rely on beyond Social Security.

A job-hopper must accept the fact that short-term employment often results in no retirement benefits. The law now requires firms to choose from two mandatory vesting schedules for retirement benefits. Benefits are either fully vested after an employee works five years, or they are 20 percent vested after three years on the job, 40 percent after four, 60 percent after five, 80 percent after six, and 100 percent after seven.

Before the law was changed, an employee usually had to put in at least 10 years for a pension to be fully vested. But even with the shorter vesting period, staying with the same employer for five years and then moving on will usually result in a minimum pension, and certainly nothing of the size needed to fund a comfortable retirement.

Vacations are important, too. Many employees who work for a number of years for the same firm enjoy longer vacations than those who have just started. Say a new job pays $5,000 a year more in salary than your current position, but it comes with only two weeks' annual leave, compared with the six weeks you now get. Is the extra pay worth four weeks' vacation?

You may enjoy the use of a company car, which has long been a highly regarded employee benefit. Your firm may provide company-paid parking, low-interest loans, child care, a cafeteria plan of benefits from which to choose, an attractive stock-option plan, use of the company gym, an education allowance, free or reduced-rate legal advice, seasonal employment for your children, membership in various clubs and health facilities, a credit union, company discounts on goods and services, and more.

Before making a job switch, you should carefully weigh seniority, current salary, job responsibilities and opportunities for professional growth, pension benefits, insurance, perks, vacations, and all the other intangibles against what you can expect to earn and enjoy at a new place of employment.

In sum, changing your job is not a step to be taken lightly.

If you are an employer, you should not dismiss the idea of hiring an applicant who has changed jobs every couple of years. Although you certainly will be attracted by resumes that indicate job stability, responsibility, and loyalty, you should recognize that job-hoppers often bring with them years of experience and training that are difficult to duplicate. What's more, an employee who is likely to leave your firm in four years or so will not cost you as much as the long-term worker who stays for 20 years, because retirement and other benefits will probably never have to be paid.

Certainly, it is difficult to hire someone when you suspect that that person will be with the firm for only a few years. You want to bring people on board who will be loyal members of your team for decades.

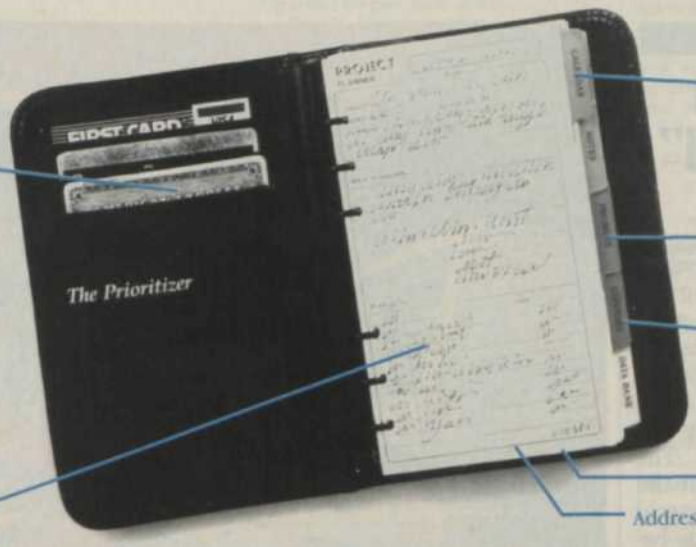
But, for better or worse, that is not the reality of employment trends today. Hire the best employees you can find, but don't be terribly disappointed or surprised when some decide to move on in a couple of years. **NB**



Paul N. Strassels, president of Money Matters, Inc., Burke, Va., is a tax-law specialist and financial adviser.

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For Your Tax File

A Law More Than Merely "Technical"

By Gerald W. Padwe, C.P.A.

It would not have been a successful year for Congress if the lawmakers had left Washington without giving us some new tax legislation. The good news is that the legislation, consisting mainly of "technical corrections" to the massive Tax Reform Act of 1986, finally made it through, even though it should have been passed in 1987. The bad news is that in order to pay for the technical corrections and for several provisions extending tax benefits beyond their scheduled expiration, Congress had to raise about $4 billion in new taxes over a three-year period.

Here is a rundown of some of the provisions of the 1988 act that are likely to affect significant numbers of taxpayers:

Employer-paid education. The law permitting employers to pay for employee training or education, without that payment's being treated as income to the employee, expired at the end of 1987. As a result, employers were unsure how to treat such payments (or reimbursements to employees) during 1988, and some, to protect their right to a deduction for compensation, withheld taxes on the amounts paid. The 1988 changes retroactively reinstated the former favorable tax rules, which will allow those 1988 payments to stay off an employee's W-2 form.

Unhappily, the favorable rules expired again at the end of 1988, leaving you to guess whether the Congress that convenes this month will extend that favorable treatment into 1989.

Funding college education. The 1988 law provides some limited relief for middle-income taxpayers by permitting interest on parent-owned EE U.S. savings bonds to be tax-free to the parent if a bond is redeemed and the proceeds (including interest) are used for a dependent's higher education. The bond cannot be owned by the child and must have been issued after 1989 to qualify for this break.



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



PHOTO: MATT BRADLEY—UNIPHOTO

Employees who attend classes may be reimbursed by their employers for the costs, but Congress put such reimbursements for educational expenses into a tax limbo for 1989.

Reporting a child's income. One of the greatest nuisances of the "kiddie tax" is the requirement that a child file a separate return, reporting unearned income and computing the tax at the parents' top rate. No tax saving is involved, but the 1988 law does permit parents to report a child's unearned income on their own return (starting 1989) and pay the tax.

The "Wash Sale" Rule Gets Scrubbed Behind The Ears

The "wash sale" rule disallows tax losses when stocks or bonds are sold at a loss and substantially identical stocks or bonds are purchased within 30 days *before or after* the sale. Without such a rule in our tax laws, there would be massive year-end sales of securities, purely to realize tax benefits from losses, followed immediately by massive repurchases of the same securities.

One taxpayer who got sharp tax advice saw a flaw in the statutory language on wash sales. He held a significant number of call options (options for future purchase of a stock at a given price) that had declined in value. He sold the options and, within 30 days, repurchased identical options.

When the Internal Revenue Service cried, "Foul—wash sale!" the taxpayer pointed out that the statute's technical language differed as it applied to sales and to purchases.

For a purchase to fall under the wash-sale rule, the taxpayer had to acquire, or enter into a contract or option to acquire, stocks or securities. A disqualifying sale was, however, defined by the statute as being the sale at a loss of "shares of stock or securities." The taxpayer noted that nothing in the statutory language covered the sale of options or contracts.

The Tax Court agreed and held the wash-sale rule inapplicable when only options were involved.

That was last September 29. A couple of weeks later, language had found its way into the 1988 tax act to prevent a repetition of that result. Now options are covered by the wash-sale rule in the same way as are stocks. The change took effect November 11, the day after the president signed the bill. NB

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Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Will The Economy Continue To Expand?

The U.S. economy has grown for the last six of Ronald Reagan's eight years as president. During this record-long period of growth, millions of businesses and jobs have been created, and inflation and interest rates have moderated. But while the new president and the new Congress inherit an expanding economy, they also inherit large budget and trade deficits, and they will hear calls for new spending programs such as child-care assistance. Do you believe the Bush administration and Congress will adopt spending and tax policies that will keep the economy growing throughout 1989?

2. Will Customers Curtail 1989 Spending?

Economic expansion over the past six years has been fueled by vigorous consumer spending. After a decade of decline, median family income has increased throughout the expansion. The consumer price index has increased at an annual average rate of only 3.5 percent during the period. And interest rates are about half what they were when the recovery began. Some experts, however, think that consumers will curtail spending because they feel burdened by debt and are uncertain about what the new administration and Congress will do. Do you believe your customers will curtail their spending significantly during 1989?

3. Will Congress Endorse Labor's Agenda?

Small business was extremely successful the past two years in deterring Congress from adopting organized labor's legislative agenda, which includes mandating benefits such as health insurance and parental leave. Though many emerging companies could not absorb the higher operating costs that would result from such mandates, labor will try to convince the new administration and Congress that companies that can't afford to provide a full array of benefits should not be in business. Do you believe lawmakers will endorse labor's agenda during 1989?

Verdicts On November Poll

Here is how readers responded to the questions in the November issue.

	Yes	No	Undecided
Require on-site voter registration on Election Day?	14%	83%	3%
Establish a uniform national poll-closing hour?	50%	45%	5%
Bar election predictions by television until polls close?	72%	23%	5%

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INTERNATIONAL BUSINESS

German and U.S. Leaders Confer on Trade Issues

By Albert G. Holzinger

Nations that adhere to the rules governing international trade should not fear either the United States' new trade law or Europe's plan to knock down remaining internal trade barriers in 1992. However, protectionist sentiments exist on both continents, and they should be monitored closely.

That was the cautiously optimistic consensus of business and government leaders of the U.S. and the Federal Republic of Germany who participated in a recent intercontinental videoconference, "A *Nation's Business* Special: Dialogue on German-U.S. Trade." The U.S. portion was broadcast from the headquarters of the U.S. Chamber of Commerce, in Washington; the German portion was broadcast from Frankfurt.

The trade bill introduced three years ago in Congress was highly protectionist, U.S. Secretary of Commerce C. William Verity said in Washington. But as a result of changes made during debate, the Omnibus Trade and Competitiveness Act signed into law by President Reagan last August "erects no new barriers to trade in [the U.S.] market," Verity asserted.

The act mainly will elevate trade to a more visible position within the federal government, U.S. participants said. As a result, "it will promote more and more free trade, not protectionism," said J. Willard Marriott, Jr., president, chairman, and chief executive officer of the Marriott Corporation, who was in Frankfurt.

While German participants concurred that the new U.S. law is not inherently protectionist, they expressed concern that its provisions could be used to impede trade.

"To me, it is a matter of how the act is applied," said Reinhardt Abraham, vice chairman of the executive board of Lufthansa German Airlines. "You can do a lot with a little," reminded Abraham, also in Frankfurt. "However, I'm confident your [new] president will not be protectionist, and he will use the act only to confront those who really use unfair practices," he added.

German participants also voiced confidence that the European Community—Germany is one of its 12 members—will be at least as open to foreign goods and services in 1992 as it is now.



PHOTO: T. MICHAEL KEZA

Meryl Comer, Washington moderator of a satellite videoconference titled "A Nation's Business *Special: Dialogue on German-U.S. Trade," questions Secretary of Commerce C. William Verity, left, and Rep. Bill Frenzel (R-Minn.) about the U.S. trade law enacted last August.*

Members of the European Community have agreed to create a unified market of nearly 230 million consumers. If they succeed, Europe's collective growth rate would increase an estimated 5 percent, and 2.5 million jobs would be created.

But before economic unity can be achieved, nearly 300 laws or regulations of member nations must be repealed or amended. This government action is to be finished in 1992.

"I do not think concern is justified" that Europeans are building a fortress around their market, said Alfred Herrhausen, speaker of the board of Deutsche Bank, in Frankfurt. He said that the purpose is to bring about a common market that will increase trade, not decrease it.

Abraham agreed that European market unification would be positive for traders from other continents. So did Robert G. Layton, former chief executive officer of the Feldmühle Paper Company.

"I look on Europe 1992 simply as a pact to grow together," said Layton, who is former managing director of Ford Motor Company of Germany. "To achieve this [growth], we will want as much trade and as little restriction as possible, including with outsiders," said Layton, also in Frankfurt.

Yet Rep. Bill Frenzel (R-Minn.) noted that in Washington, where he spoke, there is some concern about Europeans' intentions.

"We [in Congress] are nervous that [in 1992] the worst barriers of each nation could become the common barriers of a unified Europe," said Frenzel, a member of the House Ways and Means Committee, which has jurisdiction over trade legislation.

The American Business Network (BizNet), the broadcasting arm of the U.S. Chamber of Commerce, which publishes *Nation's Business* magazine, provided the forum for this exchange of views.

BizNet produced the videoconference with the cooperation of Deutsche Bank, Federal Express, Lufthansa German Airlines, Marriott Corporation, and the 3M company.

It was BizNet's first dialogue be-

Talk about protectionism permeated the remarks of business and government leaders in the U.S. and Germany during an intercontinental videoconference.



PHOTO: HEINZ—JOACHIM SCHLÜTER

The potential impact of European market unification on German-U.S. trade is discussed in Frankfurt by, from left, Robert G. Layton, former CEO of the Feldmühle Paper Company; Reinhardt Abraham, vice chairman of the executive board of Lufthansa German Airlines; Carl Grant, co-anchor of the business-news program "Nation's Business Today"; Alfred Herrhausen, speaker of the board of Deutsche Bank; and J. Willard Marriott, Jr., president, chairman, and CEO of the Marriott Corporation.

tween German and American business and government representatives. Japanese and Korean executives and officials have held similar trade talks with their American counterparts for several years by using BizNet's satellite-communications capabilities.

The German-U.S. event was moderated by the co-anchors of BizNet's "Nation's Business Today," a two-hour business-news program broadcast live every weekday morning on the ESPN cable television network. Meryl Comer, Chamber vice president for communications development, led discussions in the BizNet studio in Washington. Carl Grant, the Chamber's group vice president for communications, was in the Hessischer Rundfunk studio in Frankfurt.

The videoconference was divided into four segments, each devoted to a key issue in German-U.S. trade affairs, but talk about protectionism permeated each portion and each participant's remarks.

For example, Alexander L. Rattray, the U.S. consul general in Frankfurt, observed that there is "growing protectionist pressure in both the U.S. and Europe [at a time when] free and open trade in goods and services remains vital to our mutual prosperity." And Juergen Ruhfus, German ambassador to the U.S., expressed concern that today's trade environment could come to resemble the atmosphere of the 1920s and 1930s, when "we learned the hard way that economic nationalism can become a contagious disease."

In Frankfurt, William S. Kanaga, chairman of the advisory board of Arthur Young, a New York-based accounting firm, told his business peers that it was their responsibility to "refute fallacies such as economic nationalism," which he defined as belief that trade can be used as a weapon to advance one nation's economic condition at the expense of another.

Business people "understand better than others the interdependence of economies, that in the modern world we are all parts of a greater whole, each dependent upon the others for continued growth and prosperity," said Kanaga, who also is chairman of the board of the U.S. Chamber of Commerce.

Expanding on Kanaga's remarks was Chamber President Richard L. Lesher. "If there ever was a time when great industrial nations such as ours could consider themselves separate entities, it is long gone," said Lesher, who was in Washington. "We must recognize that in this breathtaking age of rapid progress and instantaneous communication, the world has become one marketplace."

The videoconference was brought to viewers in the U.S. and Germany, on a live or delayed basis, by use of orbiting satellites, microwave-transmission facilities, and land lines.

In the U.S., portions of the event were shown on "Nation's Business Today" on ESPN, which reaches about 50 million households.

The program was aired in its entirety on The Learning Channel cable television network, with more than 12 million subscribers, and on several independent cable systems.

The Hessian Broadcasting Company televised the program in Germany. NB

COMMENTARY

Editorial

Keeping America on Top *could become Mr. Bush's blueprint for building on the achievements of the Reagan years.*

A Plan For Competitiveness And Continued Economic Growth

President-elect George Bush is understandably receiving advice from many quarters on the approach he should take to the vast number of issues he will confront as chief executive. Some of this advice deals with domestic issues, some with such global concerns as trade policy.

The reality of the situation, however, is that there is a close link between a wide range of economic and social policies at home and maintenance of U.S. competitiveness in international trade.

America must find ways to make sure that the goods and services it wants to export meet the quality and price standards of potential customers. That process must begin long before exports are priced and offered. The starting point is a productive work force committed to quality and government policies that provide maximum freedom for market forces.

American success in world markets will thus depend increasingly on the soundness of domestic factors ranging from elementary education at the grass-roots level to fiscal discipline in Congress.

The new administration will find it necessary to deal with the combination of domestic and international considerations as it formulates a plan for meeting the challenges of an increasingly competitive world marketplace.

Fortunately, an excellent plan for maintaining and improving the U.S. competitive position in world trade already exists in a major policy statement of the U.S. Chamber of Commerce. Its title is *Keeping America on Top,* and its preamble states:

"Our challenge is to 'Keep America on Top' in a global economy with ever-increasing and ever-improving foreign competition. To meet this challenge, America must adopt policies that will help it compete worldwide through a better educated and trained people, greater reliance on private enterprise, and increased emphasis on foreign trade and fairer trade laws—the three keys to competitiveness."

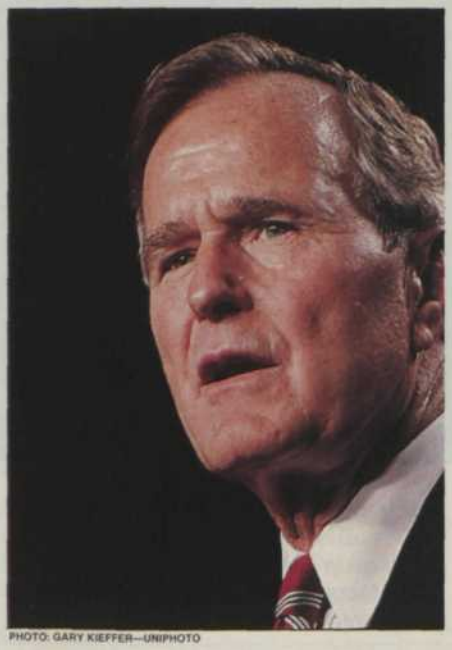


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The Chamber makes these recommendations:

People. The goals include better teachers and programs to prepare young people for the world of work, greater emphasis on basics in elementary and secondary education, tax incentives and private programs to help students obtain higher education, as well as job training and volunteer-run anti-illiteracy programs for those out of school.

Also recommended is a war against drug abuse through stepped-up law enforcement, education and rehabilitation, and a cooperative effort by law-enforcement officials, schools, the religious community, and employers. The plan also calls for a commitment to a safe and healthful working environment for all employees.

Private Enterprise. Tight controls on spending and taxation to limit government growth are top priorities in emphasizing the private sector's role in fostering competitiveness. The controls would include a balanced-budget amendment to the U.S. Constitution, line-item veto authority for the president, retention of tax rates set in the landmark 1986 tax-reform law, a 15-percent rate on capital-gains taxes, and a return to an accelerated capital-cost-recovery system.

The Chamber also opposes a corporate minimum tax that hinders investment, and it supports tax incentives that encourage research and development.

The business organization's plan also calls for encouraging more privatization of government services that can be provided more efficiently and more economically by the private sector.

Regulatory Reform. This reform could be achieved through continuation of the regulatory relief started in 1981. Additional steps are needed to improve the private pension system, to protect business confidentiality under the Freedom of Information Act, and to reform product-liability and tort laws. Other goals are to improve air quality without sacrificing economic growth, to develop new energy resources, expand the U.S. science and technology base, and reform labor laws to curb union racketeering and violence.

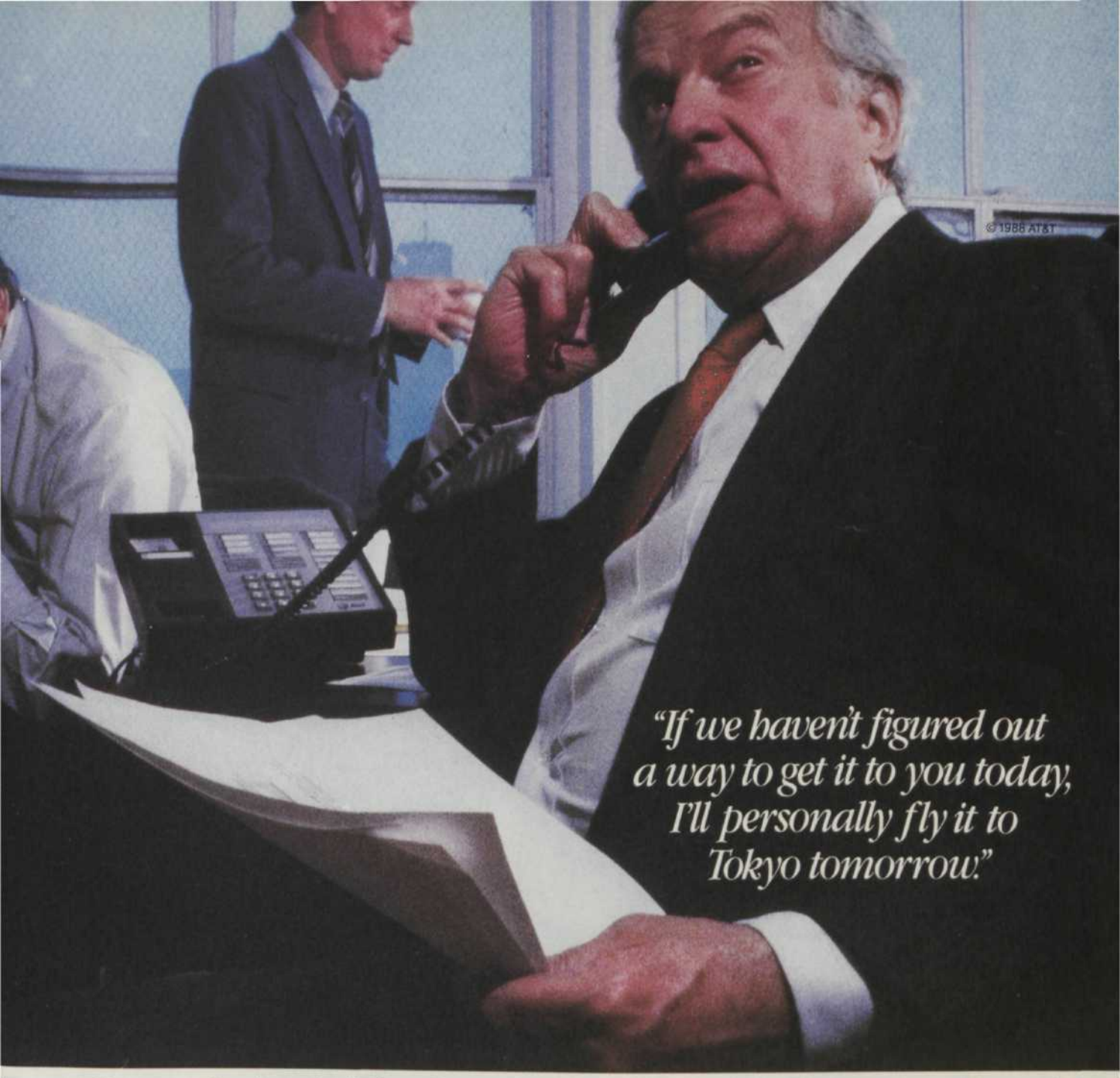
The Chamber also urges rejection of legislative proposals for mandated benefits and for concessions that would unfairly strengthen labor unions.

On trade issues specifically, the Chamber calls for steps to encourage more companies to begin exporting and for elimination of foreign barriers to U.S. products and services.

Other initiatives proposed by the business federation call for encouraging personal savings, fostering commercial spin-offs from government-sponsored research, and overhauling the nation's highways, bridges, waste-disposal systems, and water-supply networks.

That is a plan not only for greater U.S. competitiveness in world trade but also for continued economic growth and the solution of many social problems at home.

It can provide an excellent starting point for the new administration. NB



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